

The Case for Investing in ETFs

Presented By

**C. Michael Carty, Principal
New Millennium Advisors, Inc.
mcarty@newmilladvisors.com**

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What are the Basic Strategies for an ETF Portfolio?

- Establishing a long position
- Short sales
- Building hedged portfolios
- Neutralizing over-weighted positions
- Leveraged or margin trading
- Market, limit and stop-loss orders
- Equitizing cash
- Completion strategies

Can ETFs be Used for Lifetime Financial Planning? Two Examples

Two examples:

- ✓ Young woman
- ✓ Mature couple preparing for retirement

Asset Classes and ETFs Used in the Analysis

Asset Classes/ ETFs	Ticker Symbol	Calculated	
		Mean	Std Dev
T-Bills	-	4.8%	0.3%
Russell 3000 Growth	RAG	11.8%	22.7%
Russell 3000 Value	RAV	12.8%	14.9%
SPDR 500	SPY	12.6%	16.9%
MidCap SPDR	MDY	16.5%	20.3%
iShares S&P SmlCap	SML	13.1%	20.5%
2-Year FTRS	N/A	5.6%	1.7%
5-Year FTRS	N/A	5.8%	4.1%
10-Year FTRS	N/A	5.5%	6.5%
iShares EAFE	EAF	1.4%	15.3%

In Lifetime Financial Planning . . .

“Risk is the prospect of failing to achieve one’s lifetime goals.”

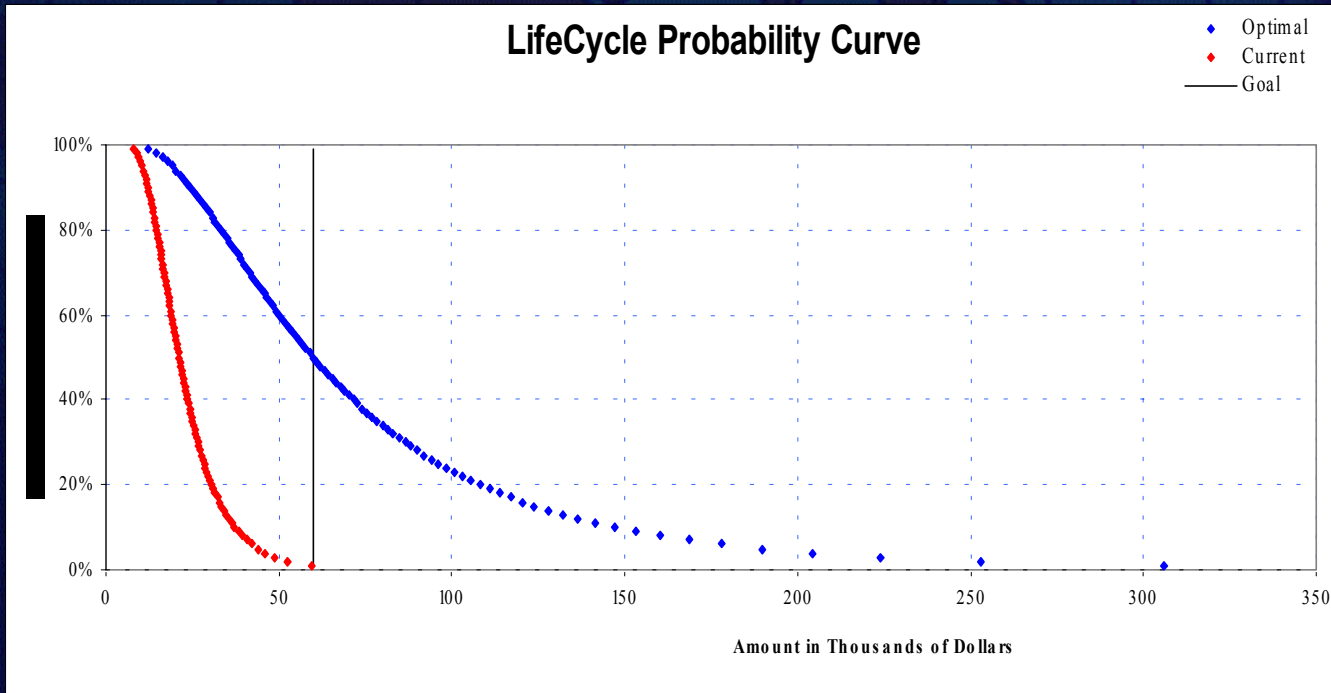
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
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Factors Used to Identify Lifetime Financial Prospects of a Young Adult

Ms. Holly Golightly, age 30, has savings of \$20,000 and adds \$6,000 annually. She hopes to buy home in 10 years for which she will have to make a \$60,000 down payment. Her life style in retirement in 35 years is likely to cost \$60,000 annually above pension and social security benefits, with a life expectancy of 30 years in retirement. Will her current equal-weighted ETF portfolio allow her to do this?

Holly's Prospects for Achieving Her Lifetime Financial Goals




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Portfolio Weights in Holly's Current and Recommended Portfolios

Asset Classes/ ETFs	Current Portfolio	New Portfolio
T-Bills	10.0%	0.0%
Russell 3000 Growth	10.0%	0.0%
Russell 3000 Value	10.0%	29.6%
SPDR 500	10.0%	0.5%
MidCap SPDR	10.0%	53.8%
iShares S&P SmlCap	10.0%	0.5%
2-Year FTRS	10.0%	2.5%
5-Year FTRS	10.0%	12.1%
10-Year FTRS	10.0%	1.0%
iShares EAFE	10.0%	0.0%
Total	100.0%	100.0%
Portfolio Mean	9.0%	13.7%
Portfolio St Dev	9.9%	14.7%

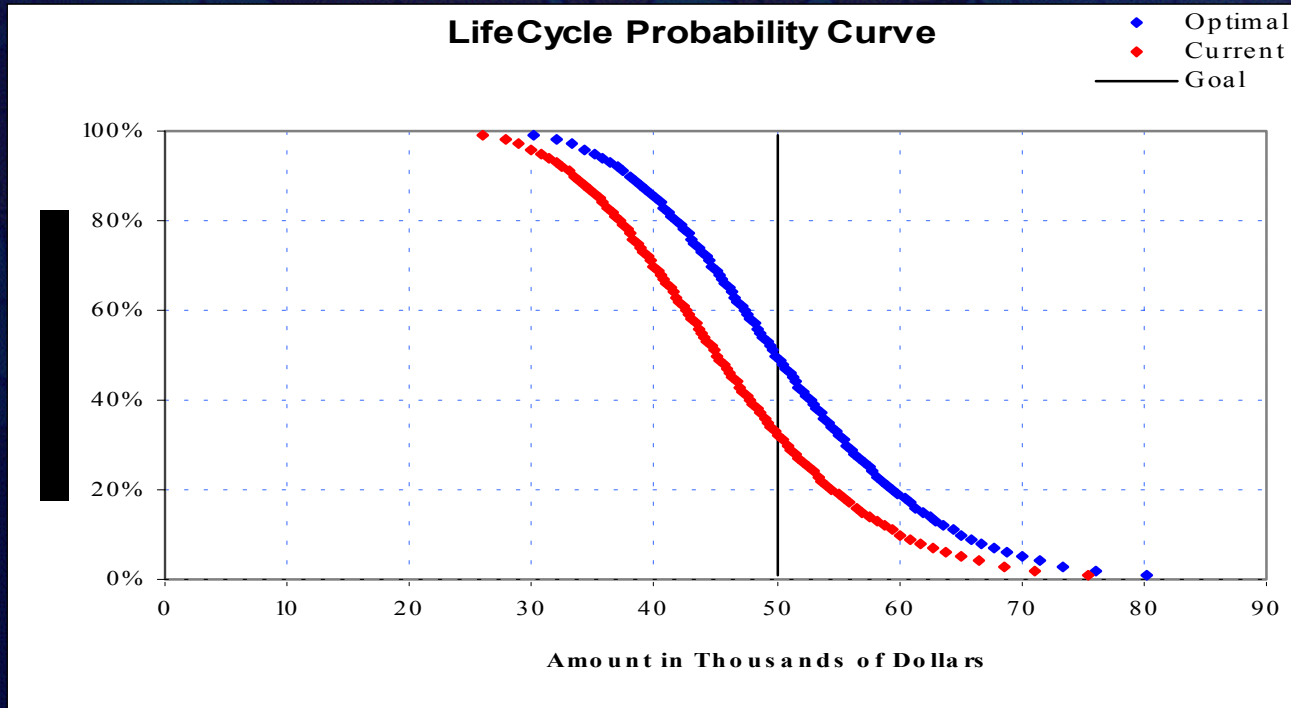
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


Lifetime Financial Planning For a Couple Approaching Retirement

Mr. and Mrs. Livemore, age 58, with savings of \$600,000, expect to save \$25,000 annually for the next 7 years by their retirement, which is expected to last 25 years. Their intended life style will cost them \$50,000 annually above other pension benefits. What is the likelihood their current equal-weighted ETF portfolio will permit them to do this?

The Livemore's Prospects for Achieving Their Financial Goals




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Portfolio Weights in the Livemore's Current and Recommended Portfolios

Asset Classes/ ETFs	Current Portfolio	New Portfolio
T-Bills	10.0%	0.0%
Russell 3000 Growth	10.0%	0.0%
Russell 3000 Value	10.0%	19.7%
SPDR 500	10.0%	0.3%
MidCap SPDR	10.0%	32.6%
iShares S&P SmlCap	10.0%	0.3%
2-Year FTRS	10.0%	16.3%
5-Year FTRS	10.0%	30.5%
10-Year FTRS	10.0%	0.3%
iShares EAFE	10.0%	0.0%
Total	100.0%	100.0%
Portfolio Mean	9.0%	10.7%
Portfolio St Dev	9.9%	9.2%

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The Main Conclusion

Financial planners and their clients will increasingly use ETFs for all their investment needs which will increase the demand for new products and the assets devoted to them e.g., enhanced index funds, actively managed funds and fund of funds, etc.