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CANADIAN ETF Watch

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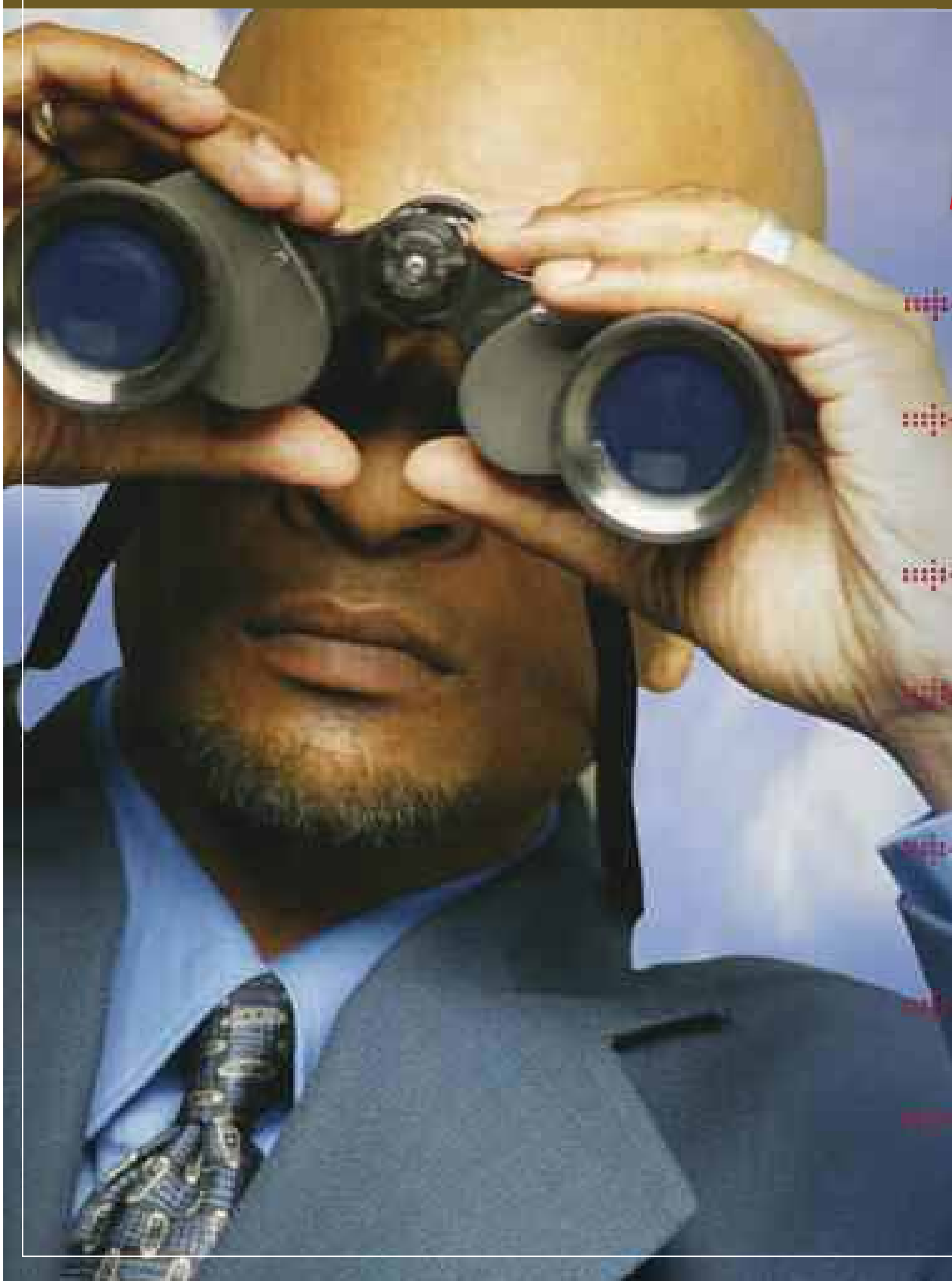
Canadian ETF Performance Review: August Year-To-Date



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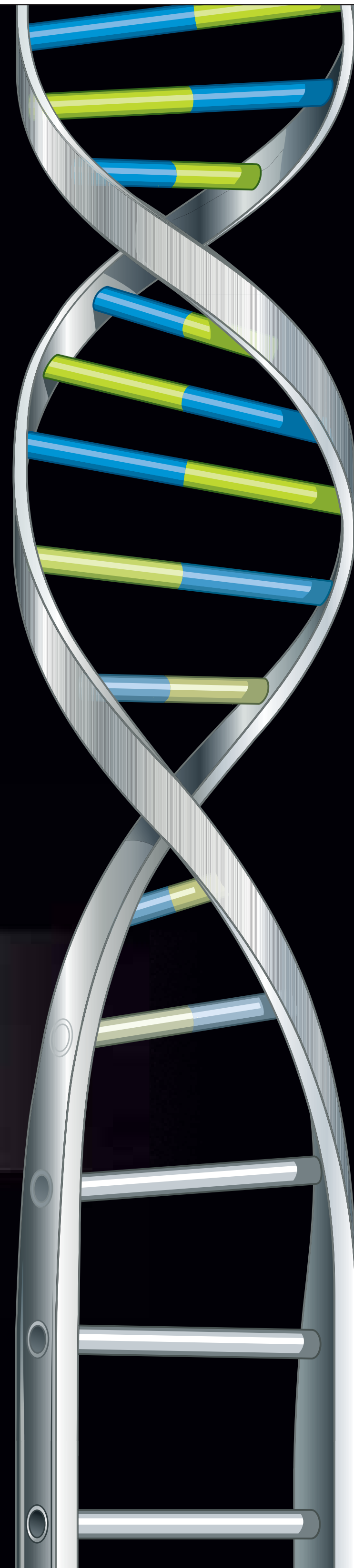

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Earlier this year **Radius Financial Education (RFE)** launched the **Canadian ETF Watch** website, **www.canadianetfwatch.com**, a web portal devoted to the world of Exchange Traded Funds with a focus on Canada. This website is a completely independent, Canadian resource tool that has been designed to give Investment Advisors, Investors, Service Providers and anyone interested in exchange traded funds a "one stop shop" for the most up to date information on all ETF's available in Canada. We have daily news, new issues, up to date information, interviews, education, ETF quotes provided by **TMXmoney.com** and much more. So please stay tuned as the website is updated daily.

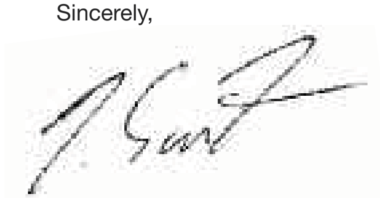
In the summer of 2010, Radius Financial Education set out to create an online publication and web site that would address education, updates and timely issues in the Canadian ETF space. We are proud to say that over the past year we have accomplished this goal and will continue to do so. The authors of this and past issues have contributed important and timely articles on a range of topics including *The Fast Growing World of ETFs, Emerging Markets, Bond ETFs* and *Utilizing ETFs to Increase Portfolio Efficiency* to name a few. We encourage you to engage in discussion with our authors and other readers by commenting on the articles using the author's email address provided.

Publications like Canadian ETF Watch only materialize through the hard work of many individuals, and we had a host of people to thank for their time and generosity during the creation of both the publication and the website. Most importantly: thank you to our authors, for submitting their work in a new, untested publication. We hope our efforts and this compilation of articles makes them proud to be a part of something new and exciting.

At Radius Financial Education, our goal is to provide our visitors with informative content that is developed and written for your specific ETF needs. In addition, we will continually strive to add more information and to update you with the latest happenings and news in the ETF sector. Check out the web site and let us know what you think.

We would like to thank our readers for their continued support. We hope you enjoy **Canadian ETF Watch Volume 2, Issue 5.**

Sincerely,



Tony Sanfelice, President
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SEPTEMBER 2011 | VOL. 02 NO. 05

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Types of ETFs

*There are a variety of **Exchange Traded Funds (ETFs)** that provide investors an opportunity to develop a diversified investment portfolio. ETF sponsors are constantly adding to the types of ETFs available, providing investors with more choice. Many ETFs track the performance of an underlying index or benchmark. The underlying index or benchmark may be broad, or sector-specific, or be linked to commodities or currencies. ETFs have evolved, however, to include those that do not passively track an underlying index or benchmark.*

ETFs can be grouped into different categories, which may include:

Index ETFs

ETFs that use an index tracking approach generally follow a pre-selected index, called a benchmark, and the return on the ETF will closely correlate with that of the underlying index. Index ETFs follow a variety of indices, including the broad market (both Canadian and international), sectors such as infrastructure or health care, and commodities (including natural gas, oil and gold), as well as indices that offer exposure to dividends or fixed income. The weightings used in the underlying index could be based on market capitalization of the constituents or on fundamental factors such as financial criteria. Index ETFs may also follow indices that adhere to a certain investment style, such as value or growth.

Inverse and Leveraged ETFs

Inverse ETFs are designed to seek daily investment results that correspond to the inverse daily performance of their underlying index or benchmark. To meet their investment objectives, inverse ETFs use a variety of derivatives such as futures contracts and index swaps to reproduce a daily result that is the opposite of the underlying index or benchmark; so, when the index or benchmark goes down in value on a given day, the inverse ETF will correspondingly go up in value for that given day. Conversely, when the index or benchmark goes up in value, the inverse ETF will correspondingly go down in value. Investing in these ETFs is similar to holding short positions, or using a combination of advanced investment strategies to profit from declining prices.

Leveraged ETFs are designed to seek daily investment results to provide a multiple of the daily performance return of an underlying index or benchmark (for example, 200% the return). They are not intended to provide that same multiple of the return over the mid or long term. Investors should be aware that, while leveraged ETFs typically achieve their stated objective of a multiple of the daily performance of an underlying index on a daily basis, their returns can vary considerably from that stated objective if held for a period longer than one day. Note that some leveraged ETFs are also inverse, in that they track the opposite of the return of an underlying benchmark.

To meet their investment objectives, leveraged ETFs use a variety of derivatives such as futures contracts and index swaps to provide a multiple of the market exposure of the stocks in the fund. Leveraging increases the risk of the investment in such an ETF, in that losses will be magnified by that same multiple.

Inverse and leveraged ETFs are generally intended for use in daily or short-term trading strategies, and are not intended for investors who are looking to hold positions in a security beyond the short-term. Over time, a leveraged fund can drift from its benchmark due to the effects of compounding, especially during periods of market volatility. Therefore, the return on these ETFs for periods longer than a single day will not correlate with the return of the underlying benchmark. Accordingly, significantly more risk is involved in these types of ETFs than in index ETFs.

It is important that investors clearly understand the nature and risks of any ETF prior to investing.

Commodity ETFs

Commodity ETFs provide exposure to commodities such as energy (e.g., natural gas or oil), precious metals (e.g., gold, silver or platinum), or livestock and grains, either by (i) holding the physical commodity directly, (ii) tracking the performance of the spot market price through physical forward contracts, or (iii) investing in or tracking the performance of commodity futures contracts. ETFs that hold the physical commodity provide exposure to the spot price of the commodity without the trouble of storing the commodity. ETFs that hold futures provide exposure to futures without the trouble of rolling them over. Most commodity indices are futures price indices, reflecting a change in the price of commodity futures, not in the commodity price.

Currency ETFs

Currency ETFs provide exposure to currencies and can also hold either the actual currency or futures contracts. Some are designed to be long or short on one currency against others; some are designed to hold a mix of long and short futures positions among several currencies.

Actively Managed ETFs

Index ETFs are generally designed around a passive strategy and therefore typically have lower management fees. Some ETF providers offer actively managed ETFs that operate more closely to the concept of a mutual fund. These ETFs have an active manager making investment decisions, often with the objective of outperforming rather than tracking a particular benchmark index, but usually with lower management fees than a traditional mutual fund.

Exchange Traded Notes (ETNs)

Exchange traded notes are debt obligations of the issuer and trade like ETFs. They do not guarantee any return of principal at maturity and do not pay any interest during their term. While they exhibit no tracking error in that their return at maturity is linked to the return of the underlying index (minus expenses), they do exhibit credit risk linked to the issuer. ETNs offer long and short or inverse exposure to commodities and currencies as well as leveraged exposure.

Source: tmxmoney.com

Canadian ETF Performance Review: August Year-To-Date

National Bank Financial conducts a performance review of all local ETFs offering broad Canada, US, and International Equity exposure as well as broad Canada Fixed Income exposure, drilling down to key performance metrics.

The National Bank Financial performance review is centered on two key areas:

1 **Excess Return** represents the difference between the benchmark index and ETF NAV return, and it is a function of the ETF structure. We measure this as the weekly average, annualized.

2 **Premium/Discount to NAV** represents the difference between the NAV of the ETF and its price, and it is a function of the ETF trading and market making. We measure this as the daily average.

By analysing both the mean and volatility of these two metrics over a period, we believe we're able to effectively assess the overall performance of ETFs from an investor standpoint.

Pat Chiefalo
Director of Derivatives and Structured Products Research

NATIONAL BANK
FINANCIAL MARKETS

Broad Canadian Equity

- **HXT** performance has been exceptionally good, dragging its index by only 4 bps with small variability. Further, trading has been very efficient with 2 bps average discount/premium to NAV.
- **XIU** performance is very strong with understandably higher drag at 15 bps given its higher MER of 17 bps compared to HXT's 7 bps. Premium/discounts have also been very efficient at 1 bps with similar variability to HXT.
- **ZCN** had very good mean excess return, arguably better than XIU, but the premium/discount to NAV volatility was much higher moving it slightly below XIU on the list.

Broad Canada Equity ETFs - 2011 YTD Metrics				
ETF	Excess Returns*		Prem/Disc to NAV	
	Mean	Volatility	Mean	Volatility
HXT	-0.04%	0.04%	-0.02%	0.12%
XIU	-0.15%	0.05%	-0.01%	0.13%
ZCN	-0.09%	0.09%	0.01%	0.21%
XIC	-0.33%	0.09%	0.02%	0.14%
CRQ	-0.78%	0.16%	0.05%	0.16%
HEW	-0.55%	0.09%	0.15%	0.54%

*Annualized figures, based on weekly intervals

Broad Canadian Fixed Income

- **XBB** is the top performer in our view, with only 28 bps drag and very low variability in excess returns. Premium/discount to NAV is the best in the group at 5 bps, with low variability.
- **ZAG** had the second lowest drag at 50 bps, but it had the highest premium/discount in both average and variability.
- **CAB**'s has a fairly meaningful drag versus its index at more than 1%.

Canada Aggr. Bond ETFs - 2011 YTD Metrics				
ETF	Excess Returns*		Prem/Disc to NAV	
	Mean	Volatility	Mean	Volatility
XBB	-0.28%	0.06%	-0.01%	0.11%
ZAG	-0.50%	0.91%	0.24%	0.25%
CAB	-1.22%	0.48%	0.13%	0.16%

*Annualized figures, based on weekly intervals

U.S. Equity

- **XSP** has shown solid improvement in performance compared to last year, with very low drag; however, it does have the highest variability in excess return in the group and is worth monitoring. Premium/discount to NAV is exceptionally good with very low volatility.
- **ZUE** and **HXS** performed similarly in both categories, with drag around 50bps at similar volatility, as well having comparable variability in premium/discount to NAV.

U.S. Equity ETFs - 2011 YTD Metrics				
ETF	Excess Returns*		Prem/Disc to NAV	
	Mean	Volatility	Mean	Volatility
XSP	-0.03%	0.46%	0.02%	0.08%
ZUE	-0.45%	0.32%	0.10%	0.31%
HXS	-0.51%	0.35%	0.01%	0.42%
CLU	-1.27%	0.39%	0.11%	0.29%

*Annualized figures, based on weekly intervals

International Equity

- Excess return drag and volatility of excess return (tracking error) in this asset class are a step function above the others for a number of reasons, including differences in hours of market operation and currency hedges. Nevertheless, within this group, **CIE** delivers the tightest performance on a tracking error basis despite the weaker premium/discount to NAV metrics.
- **ZDM** had closer mean excess return than CIE, but its tracking error is much higher, and it has shown material premium/discounts to NAV.
- **XIN** shows very positive out performance of 1.2%; however, the variability of this number is a sector high 5.85%, so we rank it lower.

Intl. Equity ETFs - 2011 YTD Metrics				
ETF	Excess Returns*		Prem/Disc to NAV	
	Mean	Volatility	Mean	Volatility
CIE	-1.18%	0.74%	0.32%	0.68%
ZDM	-0.57%	3.58%	0.40%	0.55%
XIN	1.21%	5.85%	0.00%	0.29%

*Annualized figures, based on weekly intervals

ETF Index Tracking and Performance

Period:			31-Aug-2011 YTD						2010					
			Full Period		Excess Returns		Prem/Disc to NAV		Full Period		Excess Returns		Prem/Disc to NAV	
Asset Class	Name	Ticker	Period Return	Excess Return	Mean	Volatility	Mean	Volatility	Period Return	Excess Return	Mean	Volatility	Mean	Volatility
EQUITY														
Canada Equity	Horizon S&P/TSX 60	HXT	-3.81%	-0.02%	-0.04%	0.04%	-0.02%	0.12%	N.A.	N.A.	N.A.	N.A.	-0.02%	0.10%
	iShares S&P/TSX 60 Index	XIU	-3.89%	-0.10%	-0.15%	0.05%	-0.01%	0.13%	13.60%	-0.24%	-0.22%	0.04%	-0.02%	0.10%
	BMO Dow Jones Canada Titans 60	ZCN	-4.52%	-0.07%	-0.09%	0.09%	0.01%	0.21%	13.62%	-0.24%	-0.22%	0.06%	0.02%	0.25%
	iShares S&P/TSX Capped Composite	XIC	-3.75%	-0.23%	-0.33%	0.09%	0.02%	0.14%	17.26%	-0.34%	-0.29%	0.04%	-0.02%	0.23%
	Claymore Cdn. Fundamental Index	CRQ	-4.98%	-0.52%	-0.78%	0.16%	0.05%	0.16%	13.69%	-0.90%	-0.79%	0.05%	0.07%	0.16%
	Horizon S&P/TSX 60 Equal Weight	HEW	-4.39%	-0.37%	-0.55%	0.09%	0.15%	0.54%	N.A.	N.A.	N.A.	N.A.	0.07%	0.35%
	S&P/TSX 60 INDEX		-3.79%						13.84%					
	S&P/TSX CAP COMP TR IDX		-3.52%						17.61%					
U.S. Equity	iShares S&P 500 Index Fund CAD-Hedged	XSP	-1.89%	-0.38%	-0.03%	0.46%	0.02%	0.08%	13.47%	-0.08%	-0.30%	0.89%	0.04%	0.23%
	BMO US Equity Hedged to CAD Index ETF	ZUE	-1.84%	-0.42%	-0.45%	0.32%	0.10%	0.31%	11.14%	-0.68%	-0.72%	0.38%	0.10%	0.41%
	Horizons S&P 500 Index ETF	HXS	-2.27%	-0.76%	-0.51%	0.35%	0.01%	0.42%	N.A.	N.A.	N.A.	N.A.	0.08%	0.22%
	Claymore US Fundamental Index ETF	CLU	-4.25%	-0.47%	-1.27%	0.39%	0.11%	0.29%	16.70%	-3.29%	-2.65%	0.69%	0.16%	0.31%
	S&P 500 INDEX CAD-HEDGED		-1.51%						13.55%					
Intl. Equity	Claymore International Fundamental Index ETF	CIE	-9.78%	-0.72%	-1.18%	0.74%	0.32%	0.68%	-0.18%	-2.10%	-1.63%	1.00%	0.54%	0.93%
	BMO International Equity Hedged to CAD Index ETF	ZDM	-12.27%	-0.63%	-0.57%	3.58%	0.40%	0.55%	1.11%	-4.56%	-4.80%	5.50%	0.58%	0.70%
	iShares MSCI EAFE Index Fund CAD-Hedged	XIN	-12.26%	-0.44%	1.21%	5.85%	0.00%	0.29%	4.59%	0.03%	-0.70%	7.60%	0.01%	0.29%
	MSCI EAFE INDEX		-11.82%						4.56%					
FIXED INCOME														
Canada Bonds	iShares DEX Universe Bond Index	XBB	5.34%	-0.74%	-0.28%	0.06%	-0.01%	0.11%	6.35%	-0.40%	-0.38%	0.08%	0.04%	0.21%
	BMO Aggregate Bond Index ETF	ZAG	5.37%	-0.30%	-0.50%	0.91%	0.24%	0.25%	N.A.	N.A.	N.A.	N.A.	0.37%	0.37%
	Claymore Advantaged Cdn. Bond ETF	CAB	4.13%	-1.04%	-1.22%	0.48%	0.13%	0.16%	5.23%	-0.97%	-1.19%	0.40%	0.29%	0.15%
	DEX UNIVERSE BOND INDEX		6.08%						6.74%					

Period Return: Based on Net Asset with reinvested dividends **Excess Return:** Total ETF return based on NAV minus total benchmark index return
Avg. Prem. to NAV (Average Premium to NAV): Average end of day price premium to Adjusted Net Asset Value
Track. Err. (Tracking Error): Standard deviation of weekly ETF returns based on NAV less benchmark index returns
Mean E.R. (Excess Return): Average weekly total ETF return based on NAV minus total benchmark index return

Source: Bloomberg, Claymore, BMO, iShares, Horizons, National Bank Financial

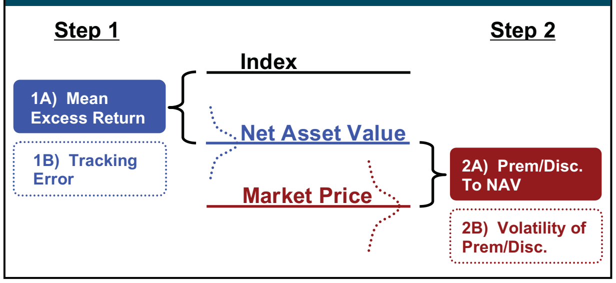
Continued on page 8

***Rationale:** Chart 1 illustrates how an investor experiences the index return by buying an ETF in the market. We segment this experience into two key steps to assess the return quality of the ETF.*

1 The returns generated by the fund's assets might differ from the target index, in both 1A) absolute amount and 1B) volatility.

2 The market price of an ETF might differ slightly from the fund's net asset value by a premium or discount. The 2A) magnitude and 2B) volatility of this premium/discount affects the return.

Chart 1: From ETF Price to NAV to Index: Important Metrics
Source: National Bank Financial



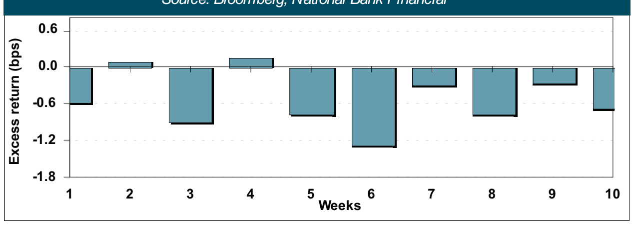
1 Index to ETF NAV

The provider of an ETF attempts to deliver the index performance by managing fund assets that replicate the index. We measure the effectiveness of this management through 1A) mean excess return (NAV-based returns minus index returns), and 1B) the standard deviation of excess returns (tracking error).

1A) Mean Excess Return: For an ETF to effectively track its index, the total return of its assets should closely match the index. Over a period such as a year or a quarter, we'd like to see the average of its weekly excess returns as close to zero as possible.

1B) Tracking Error: We'd also like to see consistent excess returns from week-to-week, without wild swings. In Chart 2, a good ETF would have bar heights close to zero (low mean excess return), with little spread between them (low tracking error).

Chart 2: Example of ETF Excess Returns over Benchmark Index
Source: Bloomberg, National Bank Financial



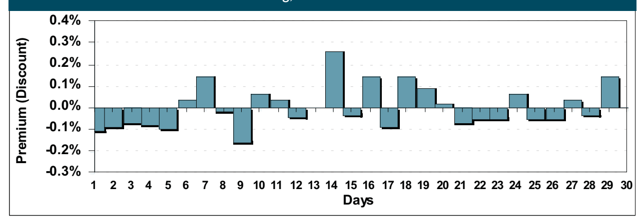
2 ETV NAV to Market Price

An investor who buys the ETF in the open market will pay a share price that may be slightly different from the actual NAV. Here we look at 2A) the average premium or discount to NAV, but more importantly we look at 2B) the volatility of this premium or discount.

2A) Premium (Discount) to NAV: The next step in accessing true index exposure is to ensure that the market price of an ETF is as close as possible to the NAV of its underlying assets. Typically, the in-kind creation and redemption process of an ETF forces this premium to zero through the arbitraging activity of market makers.

2B) Volatility of Premium (Discount): However, the metric that matters more to investors is how volatile the premium to NAV is, because this will cause further deviation from index performance when the investor buys or sells. Chart 2 illustrates a sequence of daily premium/discounts to NAV. We'd like to see the bars as close to zero as possible but more importantly, little difference between the bars.

Chart 3: Premium/Discount to Net Asset Value of Sample ETF
Source: Bloomberg, National Bank Financial



Definitions

Period Return: Total return of an ETF or index with dividends reinvested over a period such as a week, quarter, or year

Excess Return: Period return of ETF minus benchmark index total return.

Mean E.R. (Mean Excess Return): Average of weekly total ETF returns minus total benchmark index returns

Volatility of Mean Excess Return: Standard deviation of weekly ETF NAV returns less benchmark index returns. Also called Tracking Error

Prem/Disc. to NAV (Premium/Discount to NAV): Average end of day price premium divided by Net Asset Value

Prem/Disc. to NAV Volatility: The standard deviation of the end of day price premium to Net Asset Value

Pat Chiefalo, Director of Derivatives and Structured Products Research

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The True Liquidity of an ETF

The traded volume of an ETF has little effect on its liquidity. While the liquidity of an individual security is directly related to the traded volume of that security, the same correlation does not apply to ETFs.

Mark Raes
Vice President & Portfolio Manager BMO ETFs & Global Structured Investments

Instead, the liquidity of an ETF is best measured by the underlying securities which it holds. If the individual securities that compose the ETF have a high traded volume, and are therefore very liquid, then the ETF that holds them will have the same degree of liquidity. Similarly, if the underlying securities of the ETF have a low traded volume, or are illiquid, the ETF will have a low degree of liquidity as well. BMO ETFs have been constructed to have liquid portfolios by establishing traded volume requirements for each security held within the portfolios.

An ETF's underlying liquidity can be seen by observing the difference between the buying price and the selling price, or the "bid-ask spread." A tighter bid-ask spread on an ETF generally indicates that the underlying securities also have tight bid-ask spread and are therefore also more liquid. In this way, even an ETF with low traded volume is liquid if its bid-ask spread is tight. Again, if the securities that make up the ETF are liquid, so is the ETF itself.

BMO Financial Group
Exchange Traded Funds

How Does the ETF Liquidity Mechanism Work?

First Level of Liquidity – on the Exchange
The interaction between buyers and sellers creates the first level of liquidity for an ETF. This natural liquidity is established when a sell offer from an existing unit holder is matched with a buy offer from a purchaser on the exchange. Popular and established ETFs with high transaction volumes can develop even greater liquidity than their underlying holdings.

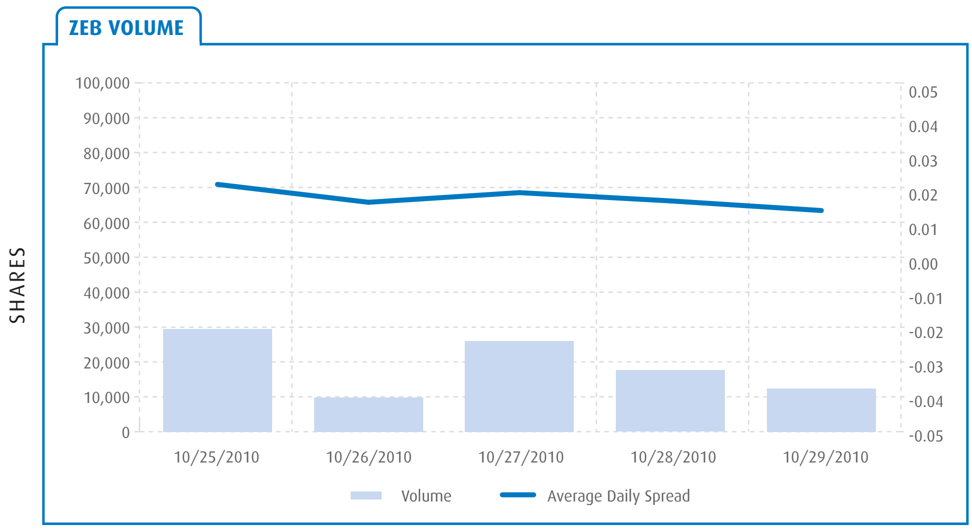
Second Level of Liquidity – Designated Broker Activity
Designated brokers are responsible for posting bid and ask offers on the exchange. This enhances liquidity and allows a buyer or seller to transact with minimal trading costs. For BMO ETFs, the designated broker continuously posts 10,000 units on both the bid and ask side, at a price which reflects the spread of the underlying securities.

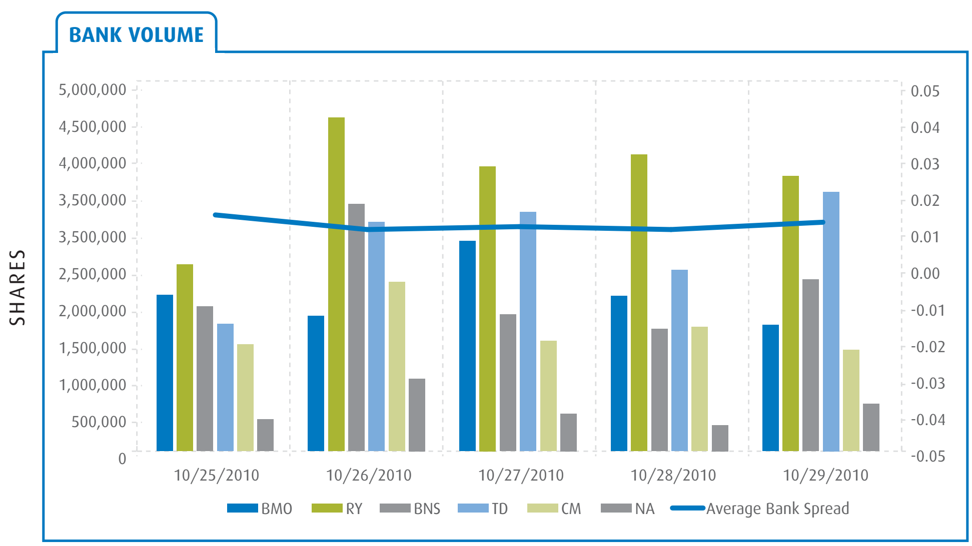
Third Level of Liquidity – Unit Creations Based on Underlying Securities
Because ETFs are open-end structures, the underwriter can correct supply imbalances by creating or redeeming units. This is essential as the underwriter can offset an increase in demand by creating more units. On the other hand, when the demand for the units decreases, the underwriter redeems units to tighten supply.

When a large buy order occurs, the underwriter will buy the basket of securities and initiate a creation order with the ETF provider. The cost to the investor would be the fair value of the units based on the midpoint of the spread, the underwriter's costs of building the basket, and the investor's single trade commission rate with their broker. The underwriter's costs are based on how much each security trade impacts its traded volume. With very liquid underlying securities, this cost is minimal. The cost increases as the liquidity of the underlying securities decreases.

By comparison, if the investor instead purchased each underlying security within the ETF, they would be faced with commission costs on each individual trade, plus the trading costs incurred with each transaction.

The graphs below show total volume traded in the BMO S&P/TSX Equal Weight Banks Index ETF (ZEB) and its underlying holdings (the six major banks) during the last week in October 2010. As you can see the volume in ZEB averaged around 20,000 shares traded per day by the end of the week. In contrast the major banks regularly traded millions of shares individually a day, which is where ZEB's true liquidity resides. Despite the low volume on ZEB, the bid-ask spread remained very tight, near one cent for the week, which mirrored the underlying banks.





As we have seen, the true liquidity of an ETF is best measured by the liquidity of its underlying securities and allows for significant trade orders without having an impact on the price of the ETF itself.

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ETFs: A Need for Greater Transparency and Regulation

For more than twenty years, exchange traded funds (ETFs) have allowed investors – both individual and institutional – to gain access to a broad range of asset classes using a low cost, transparent investment vehicle that can be easily traded on an exchange.

Mary Anne Wiley
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ETFs are investment products that can help individuals build a nest egg, prepare for retirement, or save for their children's education. They also help institutions such as large pension plans, foundations and endowments meet their financial obligations.

Like all securities, ETFs are regulated by various government agencies in different countries around the globe. Over the last decade, innovations in the financial industry, in part driven by technology, have changed capital markets significantly and have affected the way all securities, including ETFs, trade. Regulations, however, may need to further adapt to the rapid changes in the marketplace.

At the same time, some financial institutions have launched a variety of new products that trade on exchanges which are also referred to as "ETFs." However, some of these new products may provide less transparency than traditional ETFs that hold physical securities and may inadvertently introduce additional risk for the investor arising from the management, construction and performance characteristics of these products.

With the proliferation of these new products, critics have questioned whether existing regulations ensure that investors fully understand what they are buying and fully appreciate the risks and costs. The industry has much work to do to address such criticisms, including the development of new regulations regarding transparency.

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Background

The first ETF was launched in 1989, with the number of funds steadily growing to more than 3,000 products globally today. Although ETFs come in many shapes and sizes, they share a common feature: they combine key traits of traditional mutual funds and individual stocks. Like mutual funds, they provide exposure to diversified baskets of securities typically tracking a specific equity, fixed income or commodity benchmark. Conventional ETFs do this by holding the securities directly, while newer "synthetic" ETFs do this by holding derivatives such as swaps that reflect the returns of underlying securities. Both types of ETFs provide the trading flexibility of stocks, because they can be bought and sold throughout the day on an exchange.

Most ETFs also provide a high degree of transparency by publishing all or substantially all of their holdings frequently, often on a daily basis, so an investor can easily see what he or she owns. This differs from many pooled investment vehicles (including a subset of ETFs) that only disclose their holdings on a monthly or quarterly basis.

With ETFs, investors have the ability to access a wide variety of financial exposures – ranging from specific types of stocks, for example, of large or small cap companies; to stocks of companies in single countries such as Mexico or Germany; to global bonds and many other variations of financial exposure. Prior to the introduction of ETFs, many asset classes – such as emerging markets or certain fixed income sectors – were difficult to access or expensive to trade, especially for individual investors. Other advantages with ETFs include lower fees, diversification and liquidity.

These benefits help explain why ETFs have become widely used investment vehicles for both institutional and individual investors. Individual investors, either on their own or with the help of a financial advisor, now use them in a variety of ways: to build a balanced portfolio through careful asset allocation, for example, or to engage in tactical investing among sectors. Institutional investors use ETFs for a variety of strategies as well, including cash equitization, hedging and achieving exposure to otherwise difficult-to-access markets.

Concerns Raised with the ETF Market Today

While the first ETFs were straightforward, tracking relatively broad benchmarks such as the S&P/TSX 60 Index, S&P 500 or individual country indexes, today the ETF universe has become more complex and sometimes confusing. Use of synthetic strategies, lack of transparency and counterparty risk have been cited in a series of reports (see figure 1) as areas of concern.

Regulators have focused, among other issues, on ETFs that use derivatives to replicate the performance of a given benchmark rather than holding the physical assets (such as actual stocks or bonds) that comprise that benchmark. Our view is that physically-backed ETFs are typically a better choice for investors, though we recognize that derivative-backed products can have a valid role in an investor's portfolio when an underlying asset class is hard to access or less liquid and therefore ETF exposure to the asset class can only be provided efficiently through derivatives.

As ETF providers have begun using derivatives such as swaps in their products they have introduced a risk not present in traditional ETFs: the risk that the other party to a derivatives trade will become bankrupt, default or otherwise not meet its obligations (known as "counterparty exposure"). An ETF with counterparty exposure would not perform as designed if a derivatives counterparty fails to perform, and could suffer significant losses if the counterparty's obligations are not secured by high quality collateral held by the ETF. In addition, concerns have been raised over counterparty exposure from lending securities (in which case counterparties are the stock borrowers). As discussed in our recommendations, the risk of counterparty exposure can be mitigated by adopting policies for using high quality counterparties unaffiliated with the ETF's sponsor and setting standards for collateralizing exposure. As with other risks, significant counterparty exposure should always be clearly disclosed to investors.

A specific type of derivatives-backed ETF has introduced further complexity by seeking to provide returns that are a multiple of the underlying index returns through the use of leverage (which can magnify gains or losses) or by seeking to provide returns that are the inverse (or a multiple of the inverse) of the underlying index returns (resulting in an ETF that attempts to profit from the decline in the value of the underlying benchmark). The use of leverage by these products can create significantly different risks than traditional ETFs do, which should be clearly disclosed. It is important for investors to understand the differences among the various types of products that are described as "ETFs", as different types of products expose investors to different types and levels of risk. In short, investors need to know exactly what they are buying when they invest in ETFs and related products. In our view, the ETF industry today, as a whole, is not doing a sufficient job in explaining those differences consistently.

Figure 1: Recent Regulatory Reports on ETFs

Affiliate	Publication Type / Title	Publication Date
International Monetary Fund (IMF)	Global Financial Stability Report	April 2011
Bank for International Settlements (BIS)	Working Paper: "Market structures and systemic risks of exchange-traded funds"	April 2011
Financial Stability Board (FSB)	Note: "Potential financial stability issues arising from recent trends in Exchange-Traded Funds (ETFs)"	April 2011
Bank of England Financial Policy Committee	Recommendation: "The Committee advises the FSA that its bank supervisors should monitor closely the risks associated with opaque funding structures, such as collateral swaps or similar transactions employed by exchange traded funds"	June 2011
European Securities and Markets Authority (ESMA)	Discussion Paper: "Policy orientations and guidelines for UCITS exchange traded funds and structured UCITS"	July 2011
European Systemic Risk Board (ESRB)	Response to July 2011 ESMA Discussion Paper	September 2011

Continued on page 14

If there is one overarching principle that should guide all participants in the ETF industry, it is transparency. When they were first introduced more than two decades ago, ETFs helped bring a new level of transparency to the financial industry. Most ETFs continue to provide clear and transparent information about holdings and fees. Transparency in the ETF industry can and should be improved for the benefit of investors. This means transparency regarding the structure of products; transparency regarding the holdings of products; transparency about fees charged or borne by the product; and transparency about any counterparty exposure, whether they are used in either securities lending or with swaps.

Recommendations

Against that backdrop, the BlackRock® group ("BlackRock") recommends that the following global standards of transparency and disclosure for ETFs be adopted:

Clear Labelling of Product Structure and Investment Objectives

While ETFs all share certain characteristics, "ETF" has become a blanket term describing many products that have a wide range of different structures. This can lead to confusion among investors. **Investors should know what they are buying and what a product's investment objectives are.** This can be achieved by establishing a global standard classification system with clear labels to highlight the differences between products. Exchange traded product (ETP) should be the broad term used to describe any portfolio exposure product that trades on an exchange. ETF should refer only to a specific sub-category that meets certain agreed upon standards.

BlackRock recognizes that different regulators around the world have different views about what is permissible within a fund. In Canada, there is a relatively flexible regulation system which has allowed product providers to build highly specialized ETFs. While in some cases these can be a benefit to investors, there is a need to strengthen the disclosure and labeling requirements. At the most basic level, and with respect to what an investor expects of an exchange traded fund, for a product to qualify as an "ETF," it should be regulated as a publicly offered investment fund and be appropriate for a long-term retail investor. Products that are designed only for professional or short-term investors, such as exchange traded products that use leverage or inverse strategies, should not be permitted to use the "ETF" label.

Regarding derivatives usage, any significant use of derivatives, including swaps, should be clearly disclosed. If a fund's primary exposure is achieved by a swap, then to address systemic and investor concerns, the following features must be incorporated. First, any counterparty exposure must be wholly offset with high quality collateral. Second, the swap structure should follow best practices as outlined in the section below that addresses clear standards for diversifying counterparties and quality of collateral.

The overarching theme for classification of ETPs is that investors need better clarity to understand various structures. Clear labelling combined with complete and full disclosure of risks is a critical starting point. The answers to questions in Exhibit 3 can help guide a classification system. This type of classification will also provide the necessary framework for other disclosure standards that we believe are necessary as described below.

Frequent and Timely Disclosure of All Holdings and Exposures

Just as investors should understand the structure of any exchange traded product they are buying, they should also understand what that product holds or is exposed to. To that end, sponsors should be required to disclose a clear picture of what the product holds and any other financial exposures it has. Ideally, the standard should be daily disclosure of holdings and exposures, but we recognize that there are currently practical, technical and legal constraints that may prevent full disclosure of all portfolio holdings in some products. Nevertheless, the guiding principle should be that investors are entitled to frequent and complete disclosure.

For ETFs backed primarily by physical securities (e.g., stocks or bonds) that do not use derivatives, this disclosure is relatively straightforward. For example, if the product is an S&P/TSX 60 Index product that holds all stocks in the S&P/TSX 60 Index, these stocks would be listed in the disclosure.

For derivative-backed products, sponsors should disclose all usage of derivatives, including futures, options and swaps. Products that use swaps to achieve their objective have counterparty exposure. In other words, there is a possibility that something might happen to the counterparty that would prevent the counterparty from fulfilling its financial obligations. To mitigate this exposure, collateral is posted. Information including the identities of counterparties, their relationship to the sponsor and the type and value of any collateral held by the fund should be clearly presented to the investor.

Clear Standards for Diversifying Counterparties and Quality of Collateral

As mentioned above, different regulatory regimes have different approaches to counterparty exposure. In Canada, mutual funds and ETFs are already subject to regulations that set out minimum quality standards for derivatives counterparties and the maximum exposure that a fund can take on to any single counterparty. Nonetheless, there is scope for greater disclosure standards in respect to counterparty exposure and the quality of collateral posted by counterparties.

If a fund's primary exposure is achieved by a swap, then counterparty exposure must be wholly offset with high quality collateral. In addition, providers should follow best practices with regards to swaps outlined below (see Figure 2).

Figure 2: Differences between swap structures

Best Practices		Worst Practices
Over-collateralized	vs.	Limited collateral posted
Multiple counterparties	vs.	Single counterparty
Standards for collateral (type of securities)	vs.	No standards
Independence between swap counterparty and sponsor	vs.	Affiliated swap counterparty and sponsor

Securities lending programs should also adhere to best practices. The loaning out of securities is a common practice engaged in by institutional investors and funds (including ETFs) whereby they temporarily lend a security that they own to another investor or financial intermediary for a fee and receive collateral such as cash or other securities in exchange. Securities lending in ETFs can help investors earn additional income. Lenders such as ETFs often pay a portion of their income from securities lending to an agent that arranges the loans, collects collateral from borrowers and manages the lending program. Securities lending benefits borrowers (and capital markets generally) by facilitating trade settlement and permitting short selling for hedging or other purposes, which, in turn, can result in improved price discovery.

Securities lending brings risks that need to be managed and communicated appropriately. Best practices include:

- Full disclosure of all fees paid by a fund in connection with earning securities lending revenue, including collateral management, administration or securities transfer fees borne by the lender
- Oversight of credit risk with respect to counterparty risk, collateralization levels, and cash collateral issuer risk undertaken by sophisticated risk managers that are independent from the securities lending agent
- The management of cash collateral is limited to low-risk cash management strategies undertaken by an investment manager with deep experience in stable net asset value products

Best practice for both synthetic ETFs and securities lending is for the fund to transact with multiple, unaffiliated counterparties and to over collateralize with highly liquid and diversified collateral. Clear guidelines are required regarding the types of collateral that are permissible and the amount required. In Canada, as an example, strong regulations already exist in respect to both the quality and amount of collateral posted by the borrower in a securities lending transaction.

Disclosure of All Fees and Costs Paid, including those to Counterparties

As some funds have become more complex, the fees associated with some of them have also become more complex. Investors should have complete clarity regarding all the costs and revenues associated with any fund they buy, so they can clearly establish the total cost of ownership. Thus, in addition to clearly stating the management fee paid by the fund to the sponsor, the disclosure should include any costs or fees that affect the investors' holdings, including those paid to companies related to the fund provider such as swap counterparties and securities lending participants.[3]

Today, most ETF provider websites post the expense ratio, often referred to as the management expense ratio or MER. We recommend uniform global standards that determine which additional fees and expenses are included (or excluded) from the MER, including fees paid to derivatives counterparties, enabling the investor to understand the true total cost of ownership of buying an exchange traded product.

Universal Trade Reporting for All Equity Trades, including ETFs

One of the reasons so many investors have embraced ETFs is because they trade throughout the day on a recognized exchange. Various jurisdictions, however, have different rules regarding the reporting of trades on an exchange. One of the main regulatory initiatives in both the United States and in Europe is to move over-the-counter (OTC) derivatives trading onto an exchange with a central clearing party. Their goals are to reduce systemic risk and to increase transparency. Similarly, ETFs globally should be subjected to standardized transaction reporting, as they are in Canada.

ETFs have provided investors with a low cost and transparent way to access a wide variety of asset classes for more than two decades. When first introduced, ETFs brought investors new levels of transparency and disclosure among other benefits. However, increasingly complex ETFs and related products have sometimes failed to maintain that standard and have introduced new risks to these products. New standards are required to maintain the integrity of ETFs as sound investment products. As an industry, we need to explicitly support uniform standards on labelling, transparency, disclosure and reporting that will reduce systemic risk, improve investor protection and help ensure that investors understand precisely the risks and attributes of the ETPs that they are purchasing.

Questions to ask about ETFs

Confused by classifications of exchange traded products? Investors should ask the following questions about how the product is structured:

- Does the product use any derivatives (including but not limited to futures, options, notes or swaps) to track its benchmark/index?
- If a derivative is used, what are the types of derivatives and are they used as a portfolio management tool for a small portion of the exposure or as the primary way the product tracks its benchmark/index?
- Does the product have any counterparty exposure? If so, who are the counterparties and what are the collateralization levels to address that counterparty exposure?

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ETF Liquidity: More than Meets the Eye

Institutional and retail investors use a number of criteria when evaluating and selecting exchange-traded funds (ETFs).

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The criteria include the expense ratio, tracking error, ETF provider and management, ETF performance, benchmark used, resources made available by the ETF provider, access to unique indexes or market segment and the breadth of offerings from that provider. Many investors also use liquidity as a factor driving the selection process, but ETF liquidity is widely misunderstood. Average daily volume (ADV) is one measure of ETF liquidity, but it may not always be the most accurate or reliable measure. Leading ETF analysts have argued: "There is virtually no correlation between those two factors (assets and ADV) and the true liquidity of an ETF." [1]

Still, many investors mistakenly believe that the most actively traded ETFs reduce trading costs. In reality, ETF liquidity is broader in scope than trading volume and needs to be better understood by investors.

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As Open-Ended Structures, ETFs Don't Trade Like Stocks

One way to gain a stronger understanding of ETF liquidity is to compare the way stocks trade to the way ETFs trade. Stocks trade in an "outright" or "auction" market with a fixed number of shares available for trading. The value of a stock is determined by the aggregate opinion of the outright value of company in question. That opinion gets expressed by the price discovery process wherein supply and demand are equated at a market clearing price. Based on aggregate investor opinions on publicly available information, the correct value of a stock is its current market price.

In comparison, the ETF creation/redemption process means ETFs trade in an arbitrage situation in which bid-ask prices are not determined primarily by supply of and demand for ETF units themselves or exclusively by ETF unit trading volume. Instead, prices are driven by the value and liquidity of the underlying baskets of securities.

While those underlying securities have values determined in an outright market, the ETF's value can only be expressed in relation to them. ETFs do not trade like stocks. They trade like the sum of the stocks that comprise them. Designated Brokers (DB) and dealers can create and redeem prescribed numbers of units (PNUs) to meet investor demand. Also, a DB can create additional PNUs by assembling a basket of the securities held in the ETF at their proportionate weights and exchanging the PNU for ETF units. The DB would reverse that process for a redemption. The creation-redemption process has two major implications for ETF trading. First, because there is not a fixed number of ETF units in the marketplace, the liquidity of an ETF is more closely tied to the liquidity of its underlying holdings. In other words, the ADV of an ETF is often a meaningless statistic as it is the average daily volume of the underlying securities that determine the real trading characteristics of an ETF.

The difference between an ETF unit's bid and ask price is the trading spread, which is one measure of liquidity. In general, the lower the bid-ask spread, the higher the liquidity. The higher the trading volume in a given ETF, the higher the liquidity may be. However, as we will show in this paper, trading spreads, volumes and posted liquidity may not always be indicative of ETF total liquidity.

ETF trades may be placed "at-the-market" with a market order or by using several types of orders familiar to traders. Limit orders are common and may be useful in ETF trading because they ensure that a buy trade will be executed at a price no higher than the specified price, if it is executed at all. Sell limit orders are placed to obtain a unit price no less than the specified price.

For purposes of understanding and using liquidity, there is a fundamental difference between arbitrage and auction markets. To grasp it, imagine that you must liquidate 100,000 shares of a stock and also 100,000 units of an ETF – today. As you start putting shares of stock up for sale on the auction market, the supply-demand balance will tip towards supply. You may even start to see the price fall based on your orders, and you may have to drop your ask price gradually to sell the full block quickly.

This is not always the case in arbitrage markets. In the largest and most liquid ETFs, it may rarely be the case. As you put your 100,000 ETF units on the market, unit supply will increase. Unit demand may also increase because arbitrageurs will see opportunities to profit if the price deviates from the value of the underlying basket. DBs will take advantage of this situation, and they also may reduce any associated risks through a variety of derivatives markets, including futures and options.

The second implication of the creation and redemption feature of an ETF is that it allows DBs to take advantage of arbitrage opportunities if the ETF trades at a premium or discount to its net asset value (NAV). An arbitrage trade will be profitable if an arbitrageur can buy ETF units at one price and then quickly redeem those units in exchange for an underlying basket of securities worth more. Since arbitrage trading is highly competitive, the spread between ETF unit prices and basket prices remains fairly narrow, most of the time. The spread generally widens only when it is more difficult or inefficient for the arbitrageur to buy and deliver, or receive and liquidate, the underlying basket of securities.

How does this definition of ETF liquidity relate to ETF prices? ETF prices are set each day by a DB. Throughout the trading day the DB is responsible for making two-sided markets by maintaining a reasonable spread between the bid and offer prices. The bid/offer spread should reflect changes in the value of the underlying securities in the given index. A DB will always look to hedge market risk when executing an ETF trade by selling or buying the underlying basket of securities. The DB's bid price is based on the cost to sell the underlying basket of securities, minus a spread. The DB offer price is based on the cost to buy the underlying securities, plus a spread. The spread consists of trading costs and a DB spread. The larger component of the bid/offer spread on the ETF is the bid/offer spread on the underlying securities. On lower volume ETFs, DBs will tend to quote small size with fast refresh rates. Often, a DB will be willing to trade more units at a given price but limit the amount they post to reduce their risk. When an investor hits the bid or lifts the offer, the DB program will refresh the ETF bid/offer based on the underlying basket.

This brings us back to the importance of the ADV of underlying securities. Most ETFs attempt to track indexes of securities, so their holdings tend to closely mirror index components. The more visible and actively used an index is, and the more liquid its components are, the greater the liquidity in the tracking ETF's units will be. ETFs that track well known indexes composed of actively traded securities tend to have very high liquidity and low bid-ask spreads.

[1] Source: ETF Liquidity Explained, Paul Daley, Phil Dorencz and Dan Bargerstock, Journal of Indexes, March/April 2010

Continued on page 18

Continued from : ETF Liquidity... page 17

Pay Attention to Market Depth

Most investors have access to bid-offer ETF data. But the market depth of an ETF order book is also very important. Market depth indicates the buying or selling pressure behind an individual ETF, showing the depth of the order book or the number of orders on both the bid price and ask price as well as the size bid at slightly lower prices and offered at slightly higher prices. Consider the following market depth order book for XYZ ETF:

XYZ BID	
$26.70	3000
$26.60	2000
$26.50	2000
$26.20	3000

XYZ Offer	
$27.00	3000
$26.90	2000
$26.80	2000
$26.75	3000

Where is the true liquidity on this ETF? On a market order to buy 10,000 units, the order would sweep through the order book taking all the offers up to the 3,000 units at $27.00. The average price would be $26.87, which is 12 cents higher than the inside quote of $26.75. However, if a limit order was used at $26.75, only the 3,000 units at that price would be purchased initially. At this point, the DB would have a chance to update their quote and potentially fill more units (recall that DBs quote with very fast refresh rates). The main risk with a limit order is the risk of not being fully executed. However, this is preferable to buying or selling at a significant premium or discount. A marketable limit order sets a restriction on the maximum price to be paid at or above the offer or a restriction on the minimum price to be received equal to or less than the current bid. Widening the limit would increase the number of units initially bought and increase the chances of the entire order being filled as the DBs reload their offers. It is also important to monitor the limit order and adjust it as market conditions change.

ETFs Can Enhance Market Liquidity

ETf trading volume can still be an important measure of ETF liquidity. In the most actively traded ETFs, trading spreads are often substantially smaller in the ETF than the underlying basket. The US-listed PowerShares QQQ is one of the most actively traded ETFs in the world with an ADV of approximately 74 million units. The median bid/offer spread on QQQ is 2 basis points (bps), or less than one cent. The weighted average spread on the underlying securities in the NASDAQ-100 is almost 10bps. In this case the ETF is more liquid than the underlying securities in the index, making QQQ a very efficient low-cost vehicle for getting exposure to the Nasdaq-100.

To access the liquidity advantages of QQQ, consider the example of the TSX-listed PowerShares QQQ (CAD Hedged) Index ETF (QQC) which invests directly in QQQ and hedges back to the Canadian dollar.

DBs for QQC price the bid/offer based on the liquidity of QQQ. The weighted average daily bid-offer spread for the past 3 months for the QQQ's underlying holdings has been $0.046 and the QQQ's spread for the past 3 months has been $0.01.

Since its launch in June, 2011, QQC is emerging as the lowest-cost, most liquid Nasdaq-100 ETF in Canada[2]. QQQ and QQC are examples of how, in the most popular ETFs, spreads are often much smaller in the ETF than the underlying stocks.

Hidden Sources of Market Liquidity

In analyzing ETF liquidity, it is also important to note where trades are being executed. In recent years, alternative trading systems are absorbing more and more ETF trading flow. For example, up to 50% of Canadian ETF flow now occurs on the Alpha Market. Accordingly, investors should look at consolidated trading volumes from various exchanges and trading venues such as the TSX, Alpha, etc., to get a complete picture of how liquid a particular ETF is. Many data providers, however, only provide a partial picture by only showing TSX volume.

Summary

In summary, secondary trading volume is not a true measure of ETF liquidity. If the underlying securities in an ETF basket are liquid (the cost to buy or sell the basket is relatively low), the ETF may have reasonably tight quoted spreads and thus relatively low trading costs. This is largely due to the ability of designated brokers to create and redeem PNUs on demand. Basic streaming ETF quotes may not indicate the full depth of the market and where an ETF's true liquidity can be found. A tight bid-offer spread might only reflect small size on the bid or the offer. Investors should be mindful of the prices at which an ETF's true liquidity can be found. Often, that liquidity is much closer to the liquidity of the underlying basket. As well, when analyzing ETF trading volumes, investors should note that there are now several trading venues that account for a growing percentage of ETF trading volume and should consider consolidated trading volume when evaluating ETF liquidity. DBs are armed with this information and can often help advisors get the best execution on their ETF transactions.

ETF users could benefit from a closer look at the important elements of ETF liquidity.

Commissions, management fees and expenses may all be associated with investments in exchange-traded funds. Exchange-traded funds are not guaranteed, their values change frequently and past performance may not be repeated. Please read the prospectus before investing. Copies are available from Invesco at www.powershares.ca. Not all PowerShares ETFs are based on intelligent indices.

There are risks involved with investing in ETFs, including the risk of error in replicating the underlying Index. Please read the prospectus for a complete description of risks relevant to the ETF. Ordinary brokerage commissions apply to purchases and sales of ETF units.

Each PowerShares ETF seeks to replicate, before fees and expenses, the performance of the applicable Index and is not actively managed. This means that the Sub-advisor will not attempt to take defensive positions in declining markets but rather continue to hold each of the securities in the Index regardless of whether the financial condition of one or more issuers of securities if the Index deteriorates.

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2 Comparing PowerShares QQQ (CAD Hedged) Index ETF average 20day bid/ask spreads with competitor products. Source: Bloomberg, September 9th, 2011.

With the listing of PowerShares ETFs on TSX, Canadians now have access to innovative ETFs backed by the experience of a global leader.

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Yield: 8.37%

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Yield: 10.54%

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Yield: 7.08%

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Client Holistic Retirement Workshops – A Value Added!

With millions of baby boomers getting ready to leave the job market, the wealth management world is about to experience a major influx of senior clientele.

Richard Atkinson
Founder and President

RA Retirement Advisors

Financial advisors and wealth managers will not only need to help their senior clients obtain financial security, they will be called upon to help them adjust to the unique lifestyle changes associated with transitioning from work to retirement.

When most people think about retirement, they imagine leaving a job they dislike, dropping out of the rat race and turning their back on the pressures of employment. They often see retirement as a welcome change or an escape to something more peaceful and serene.

But retiring is not only about giving up the job and relaxing. It's entering one of the most exciting and challenging stages of life. It can be a time to draw upon personal and professional experiences to opening new doors of opportunity and education. It can be the time when potential is realized and significant goals accomplished.

The opportunities in retirement are endless; however, a successful retirement doesn't come without its hurdles. There are many considerations such as living on a reduced income, creating a health and wellbeing strategy, examining relationships with family and friends, allocating personal time, establishing living arrangements, adopting and adapting to different social roles and adjusting to the eventual death of a spouse, friends and family members.

In a recent survey of 500 people, I found:

- 42% are not ready for retirement
- 39% don't have a comprehensive retirement vision
- 36% don't know how to spend their time
- 42% don't have a health and wellbeing strategy
- 84% don't have a retirement coach or mentor
- 51% want their financial advisor to provide information on retirement over and above money

Successful retirees recognize the need to plan for happiness and productivity. They evaluate what's important to them and construct actions to satisfy their needs and wants. By creating a vision of a realistic retirement and building an action plan to achieve it, they are proactively and energetically seeking results.

For many boomers faced with creating a holistic retirement plan, one that will guide their decisions into and through retirement and that will act as their compass and touch-stone, they often look to their financial advisor or wealth manager to provide leadership and direction. They see the advisor, not just in the 'financial business', but in the 'retirement business'.

After the market collapsed in 2008, many clients diversified their advisors. Now, many have more than 3 advisors. But only one will be the 'alpha advisor', the one who oversees the entire holdings of clients and directs investments during the retirement years. Retirement workshops and resulting conversations can go a long way to establishing your head and shoulders position among competitors.

Given that most financial advisors and wealth managers recognize retirement is more than asset accumulation, allocation and wealth transfer and want to assist clients to succeed in retirement, one approach to meeting clients' needs is to hold retirement planning workshops and broaden client discussions to include all aspects of life after work.

A well-structured workshop permits clients to learn about the essential topics of (a) how to build a realistic retirement vision, (b) the importance of a balanced leisure and health strategy, (c) steps for enhancing relationships with family and friends, (d) how to build a strong social circle, (e) finding and using one or more retirement coaches and (f) actions for living retirement to its fullest!

By participating in group discussions, exercises, case studies, the client is able to take the first steps in drafting his/her holistic retirement plan. Further, the client learns about the challenges and concerns of others and different approaches they are considering to building a life after work. All this information assists clients explore retirement and construct a plan tailored to meeting his/her needs and matching his/her vision.

A workshop, be it 90 minutes or one-half day, needn't be expensive. The venue can be as simple as a room in a hotel, a board room or a quiet space in a restaurant. Recently I facilitated an advisor sponsored workshop at the local library where tea, coffee and cookies were made available.

It is recommended clients aged 45 to 65 and those newly retired be invited. Clients and guests to be notified four to six weeks prior to the workshop thus giving them ample notice.

Here are comments from recently held workshops:

"What I liked best was the opportunity to spend time thinking about what my retirement may look like and recognizing the things I need to get in place to be happy."

"The workshop helped focus my ideas and plans for retirement, as well as providing an opportunity to meet fellow clients who are in a similar situation."

"This was awesome! While finances are definitely integral to my retirement plan, it is still only one component."

"We had lots of fun working in groups and agreed to follow up with each other to see how our individual plans are progressing. We learned we are not alone in our apprehensions and have many common concerns and aspirations for the next chapter of our lives."

"Many thanks to Daniel (advisor) for having the foresight and caring to sponsor the workshop. He is great! "

When asked why he holds retirement planning workshops, a senior advisor said, *"After attending, I find clients are much more aware of what makes for a happy and productive retirement and more comfortable discussing their retirement plans and concerns with me. The resulting conversations have a greater depth than just talking about money issues. To me, my value as a trusted advisor has increased as has the loyalty of my clients."*

At a recent workshop, a client said *"I greatly appreciate Daryl (advisor) holding this workshop. I knew he is different than other advisors but this demonstrates his commitment to my retirement happiness."* Talk about an endorsement!

A highly successful wealth manager recently said to me, *"With my long-term clients, we rarely talk about finances and more often discuss family and the future. Some years ago, we built a retirement plan and together, we monitor it closely. As part of our discussions, I ask 'What's working? What are you having difficulty with? What changes would you like to make? How can I help?'"*

Retirement workshops are a great way to attract new clients. Advisors use the event to invite both clients and guests. By sponsoring a workshop, a different kind of experience is created, one that potential clients will appreciate and remember.

Sponsoring retirement workshops and engaging clients in discussions about their retirement signals 'you care'. Not only are you fulfilling a need, you are taking an additional step to assist your clients as they work towards achieving the retirement of their dreams. The value added can be monumental and it doesn't cost anything more than time. Those who assist clients in building a successful and stimulating retirement reap great dividends. Happy clients are likely to live longer and enjoy greater social circles. They are also walking advertisements. Word of mouth is a powerful thing.

Richard (Rick) Atkinson, is an expert in pre-retirement planning. He is author of the best-selling book, *Don't Just Retire – Live It, Love It!* Rick facilitates workshops for clients of advisors and others. He is available for speaking engagements.

Richard Atkinson*, Founder and President of RA Retirement Advisors*
email: ***ramgt@rogers.com*** *Twitter:* ***@dontjustretire***
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Despite What You Might Have Heard, ETFs Will Not Collapse

Short interest may reveal a bad investment but will not cause an ETF to fail.

John Gabriel
ETF Strategist

Financial pundits are ready to identify the next innovation to destroy the global markets and economies. That can only mean one thing: a new crop of scare stories about exchange-traded funds. One of the most prominent offenders came out under the title, "Can an ETF Collapse?" by investment firm Bogan Associates LLC. It quickly spread through all channels of the financial media.

So, can an ETF collapse? Well, no. At least, not via the process detailed in Bogan Associates' paper. The white paper focused on ETFs with substantial short interest relative to the assets in their trust. These are almost always smaller funds focused on a corner of the market with a very negative outlook, which causes most long-only shareholders to bail out of the fund and entices short-sellers looking to benefit from the underlying shares declining in value.

In some instances, the value of the ETF shares being shorted can even exceed the value of shares that long-only investors actually hold. If this happens, the few long-only shareholders may not like the future returns on their investment (professional short-sellers tend to be a savvy lot in their choices of investment), but the standard safeguards in the institutional share lending market prevent this short-selling from creating "phantom shares" in the market that lack backing assets.

I will outline the basics of why short interest does not pose a problem for standard ETF shareholders in the rest of this article.

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Any Shares to Borrow? I'm a Little Short

We can start this example with a hypothetical new ETF. There is no short interest and 2 million shares outstanding. If shares are worth $50 a piece, then there are $100 million in assets in the ETF trust and $100 million in shares held by the investing public. Every fund starts out this way, with little to no short interest and a share count precisely matching assets.

Now let's assume that trader Hedgie Shorterson wants to bet on this ETF going down in the future, because it focuses on an industry, region, or stock type with particularly poor prospects. In fact, Hedgie wants to place a particularly massive bet of shorting 1 million shares. Hedgie cannot simply sell the ETF shares in the market without holding them, as then he could not deliver the shares three days later (the required settlement date for equities and ETFs on U.S. and European exchanges). Instead, Hedgie needs to find an investor already holding those million shares, arrange to borrow them, and then sell those borrowed shares on the market.

If some institution holding a million shares of the ETF does not plan to sell anytime in the future, it can lend those shares to Hedgie for a fixed payment rate. In return, Hedgie pledges collateral, typically composed of stocks, bonds, or cash, that is worth the entire value of the lent shares. That way, the institution does not need to worry about whether Hedgie makes money on the short position or not. If the position fares poorly and Hedgie defaults, the institution only needs to sell the collateral and use the proceeds to buy back (or create) its lent ETF position. In the meantime, the institution knows that those million shares are lent out, and it can neither sell nor redeem those shares without demanding that Hedgie return the lent shares. In fact, redemptions of lent shares are explicitly banned in ETF prospectuses.

Hedgie borrows and sells those million shares on the exchange, and the new owners of those shares could take them in to redeem. However, that is perfectly offset by the million shares held by the institution that will not sell or redeem. So, here's the final outcome after the short sale:

- $100 million (2 million shares) in assets in the ETF
- $50 million in unsalable and unredeemable shares held by the institution (offset by $50 million-plus in collateral from Hedgie)
- -$50 million short position for Hedgie
- $50 million held by previous shareholders aside from the institution who lent shares (able to be redeemed)
- $50 million held by new shareholders who bought the borrowed shares from Hedgie (also able to be redeemed)

So, every dollar in redeemable shares has a dollar in assets backing it. And that's with a short interest of 50% in our hypothetical ETF. The situation can get a bit more complicated if no institution has the million shares to lend to Hedgie. Then some institution will actually have to create the million shares before lending them out (putting more money in the ETF trust while allowing an equal value to be sold short by Hedgie), but it will still result in the same end point – where the institution holding the ETF shares knows it cannot sell and the new shareholders have full assets backing their redeemable shares. In both of these situations, the ETF ended up with more shares in existence than the number of shares sold short. So, how do we get these situations where the number of shares sold short is 5 times as high as the number of shares outstanding in the market? To explain this, we need to keep following those short-sale shares after they enter the market.

The Chain Gang and the Incredible Shrinking Fund

Let's revisit our case of an ETF with 2 million shares outstanding after Hedgie short-sold 1 million shares. There's a chance that Hedgie sold those shares to another institutional investor willing to lend shares and another short-seller (perhaps Hedgie's sister, Peggy Shorterson) borrowed them. Now, Peggy also has to pony up $50 million in collateral to protect the new institutional investor against her short position, and there are now $100 million in short sales offset by the $100 million of long positions owned by institutions and protected with $100 million-plus in collateral that would be used to create new shares in case of a problem. There are still only $100 million in the ETF trust, which perfectly matches the $100 million of unlent shares on the market, but now we have a short interest of 100%. These chains of sales to institutions and more lending can lead to very high short interest numbers but not to more danger because every link in the chain requires full collateral to protect the position.

What also happens, as we would somewhat expect, is that the short interest rises because long-only assets start to leave the ETF. Let's start back at the fund with 2 million outstanding shares and 1 million shares sold short by Hedgie. If you were a shareholder with some of those 2 million unlent shares in our hypothetical ETF, and you saw the same warning signs that made Hedgie want to short it so badly, would you really want to stick around to find out how that fares? Redemptions by shareholders can shrink the ETF's asset base while leaving the short positions more-or-less intact (because some institutions specialize in creating and hedging ETF shares that they then lend out to short-sellers). Say that half of the investors don't like the writing on the wall and redeem their million shares. Now, our hypothetical fund still has that $50 million short position offset by a collateralized institutional holding, but it only has $50 million in assets held for the $50 million in unlent shares still in the market. Shrinking assets due to redeeming current shareholders led the ETF's short interest to grow from 50% to 100%.

What if the ETF shrinks away to nothingness? What if the holders of those $50 million in remaining unlent shares want out? Well, thankfully, there are processes to address even this scenario. Nearly every ETF has a level of assets that triggers liquidation. Once that many shareholders have sought redemption of their shares, the fund is no longer viable, so the fund company will simply sell everything left in the ETF trust and divvy it among the remaining shareholders who have not lent out any of their shares.

Where does that leave our short-seller and the institution that lent the shares? The short-seller will have to cover his short because the ETF that underlies the whole investment will soon be gone. Hedgie can either go on the market and buy up 1 million shares from the investors who want to sell out or redeem (unlikely, as he would have to offer a premium to get all the shares), or he can create the million shares on his own by buying the underlying stocks in the ETF or paying an authorized participant to create the shares for him. If poor Hedgie has gone bust, the lending institution simply takes the collateral he supplied and uses it to buy up the underlying securities for the ETF, creating the 1 million in shares needed to keep its long position. No matter what, the money is there for the new shares and that 100% short interest goes back to 0% with no harm done and no individual shareholders left holding the bag.

Ultimately, the danger for these ETFs with bearish prospects appears because all we see are the eye-popping short interest numbers and the small assets in the ETF portfolio. We don't see the hundreds of millions in collateral that back up each of those short positions and that ensure new units could always be created by the lending institutions to cover those short positions. Individual investors and anyone else who does not lend out their shares need not worry about "phantom shares" crowding them out in a rush for redemptions. Their shares can all be redeemed, and every one has full assets backing it in the ETF trust.

John Gabriel, ETF Strategist - Canada, Morningstar, Inc.
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EXCHANGE TRADED FORUM 2011

May 10th & May 11th, 2011

WESTIN HARBOUR CASTLE – TORONTO

More than 400 attendees energized the conference centre at the Westin Harbour Castle in Toronto on May 10 & 11, for the second annual Exchange Traded Forum.

Moderator, Pat Bolland

By Diana Cawfield, *Radius Financial Education*

*The **Exchange Traded Forum** initiative was created and launched by **Radius Financial Education (RFE)** to enhance the education and communication of exchange traded products. The target audience comprised of investment professionals looking to further their knowledge in this rapidly expanding and changing market. The forum brought together North America's leading thinkers from academia, journalism, regulatory bodies and investment firms, to freely exchange ideas and opinions to benefit investment professionals and ultimately their clients.*

The panel discussions, presented in a comfortable, easy-chair format, provided a wealth of information, lively discussions and thought-provoking viewpoints.

As one advisor attending the forum aptly said, "You can tell by the turnout just how much interest there is in this area."

A special thanks goes to our corporate partners, including iShares, BMO Financial Group, Horizons ETFs, Vanguard, CIBC Mellon, Claymore ETFs, National Bank Financial, Barclays Capital, CanadaClaims Management, S&P Indices, TMX Group, Investment Executive and KPMG.

The agenda began with opening remarks from moderator **Pat Bolland**, Senior Counsel, Veritas Communications. Pat, formerly from BNN, drew on his engaging and astute skills, stimulating additional questions and discussions during the two-day event.

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Kick-starting the agenda, **Trevor Cummings**, Vice President, iShares, Blackrock Asset Management Canada, shared his hands-on insights on *ETF: State of the Nations*. Citing the "exponential growth taking place in ETFs today," totalling $40 billion in assets in Canada, he gave a clear and compelling perspective on the increasing popularity and advantages of these products.

During the panel discussion on *Global Economic Update & Forecast for 2012*, **Warren Jestin**, Chief Economist, Scotia Capital, explored the broad and changing global landscape on the road to recovery. "Emerging markets are underpinning the recovery and increasingly driving financial market trends and commodity markets." **Benjamin Tal**, Deputy Chief Economist, CIBC World Markets, sees no quick recovery in the U.S. housing market – but "there's been a renaissance in the manufacturing sector in the U.S. – and markets will continue to expand in China and emerging markets."

The panel discussion on *Index Investing* addressed the many aspects and choices available today and their role in portfolios. The many benefits included cost-efficiency and transparency, but "all ETFs are not equal," says **Som Seif**, President and CEO, Claymore Investments. With just shy of 200 ETFs in Canada now, **Oliver McMahon**, Director, Head of Product iShares Canada, BlackRock Asset Management, stressed, "it's key to understand the product that you're investing in." It's important to factor in liquidity and weightings, such as large caps vs. small caps, says **David Blitzer**, Ph.D., Managing Director and Chairman of the S&P Index Committee, S&P Indices.

Discussions from Top Practitioners on how to use ETFs as a practitioner, emphasized choosing the right ETF product to maximize a portfolio and fit the risk tolerance of clients. Long-term performance entails exposure to asset classes, rebalancing, and choosing a selective number of ETFs. "Advisor's must do their due diligence for clients, to understand and know what's in the ETF," says **Mark Yamada**, President & CEO, PUR Investing.

Jaime Purvis, Executive Vice President, Horizons Exchange Trade Funds, gave a comprehensive presentation on *Advanced ETF Strategies*. Along with ways to use leveraged and inverse products, Jaime spoke on what could be the "next evolution in ETF investing" – active management – which is largely in the U.S. to date.

A duo panel discussion on *Exchange Traded Portfolio Construction* expanded on the importance of asset allocation and diversification to protect capital. **Pat Chiefalo**, Director, Derivatives & Structured Products, National Bank Financial Markets, and **Ioulia Tretiakova**, Director of Quantitative Strategies, PUR Investing, provided valuable insights and examples of ways to create efficient, cost-efficient, client-focused portfolios.

The panel discussion, *Millions of Dollars are Unclaimed from Securities – Class Action Settlements by Institutional Investors!!!* was presented by **Jonathane Ricci**, Barrister, Solicitor & Foreign Legal Consultant and **Paul Battaglia**, Managing Director, both with Canada Claims Management. Canadian securities class actions now represent approximately $15.9 billion in outstanding claims, and each year millions of dollars are unclaimed. The discussion included why advisors do not and should not typically perform class action claim filing services, and whether legislation is the answer.

The presentation, *Beyond our Borders – What in the World is Going On?* held the audience's full attention. **Alex Jurshevski**, founder, Recovery Partners, emphasized the need for a "major fiscal retooling in the U.S. – or there will be a crash," while considering the Canadian dollar as having a safe haven. Alex also provided a cautionary perspective on investing in China.

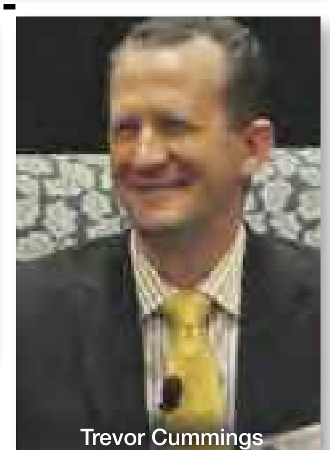
When it comes to *ETFs: Are They Being used Effectively in a Portfolio,* five panellists shared their views on the many choices and factors that go into building an effective portfolio strategy for clients, that starts with asset allocation.

Mark Raes

Ioulia Tretiakova Pat Chiefalo

Howard Atkinson

Alex Jurshevski



Trevor Cummings

David Blitzer

Greg Jones

Continued on page 30

Continued from : Exchange Traded Forum 2011 page 29

On *Evolutions and Revolutions in Canada's Capital Markets*, **Kevan Cowan**, President, TSX Markets and Group Head of Equities, offered his view on the pace of change in Canada "at the speed of revolution." On the issue of consolidation, that "is shaping the industry," and the proposed UK merge, "we're convinced that pooling our assets will maximize liquidity and opportunities." The discussion sparked lively audience participation.

We finished day one with an animated networking reception that brought together peers and friends after a stimulating day of learning.

Day two proved as action packed and informative. The panel discussion on the *Risks & Regulatory Impact on ETPs*, offered positive viewpoints on the regulatory standards in Canada, but also shared concerns about the growing number of ETFs that has created some confusion. Collectively, the participants stressed the need for adequate education by both advisors and investors on the products that they're buying.

The panel discussion on *Trading Execution* and standards, provided insightful information on trading ETFs, discussing factors such as liquidity and pricing efficiency. **Andrew McOrmond**, Managing Director, WallachBeth Capital LLC, captivated the audience by going "live to Scotty" at a U.S. trading desk, to illustrate an ETF trade execution.

The *Fixed Income* panel of four participants discussed the broad scope of ETF choices across the bond spectrum, along with highlighting the transparency aspect and the risk management factor of essentially 'buying a basket of bonds.'

Howard Atkinson, CFA, President, Horizons Exchange Traded Funds, discussed *What's in Your ETF* and investment strategies of ETFs "as a portfolio management tool and good long-term vehicle."

Jonathan Lemco, Ph.D., Principal and Senior Analyst, Vanguard, provided insightful presentation slides on *Analyzing Global Developments for Investors*. Sharing many macro views, Jonathan "is not bearish on the U.S.," thinks that emerging markets, lead by Asia, are driving global growth, and is uncertain about the future for the euro zone.


Kevan Cowan


Warren Jestin


Jonathan Lemco


Alfred Lee


David Blitzer


Oliver McMahon


Kevin Gopaul


Som Seif


Som Seif


Neil Bearse


Laszlo Kramer, winner of the 47" Sony TV & Judy Street of Radius Financial Education

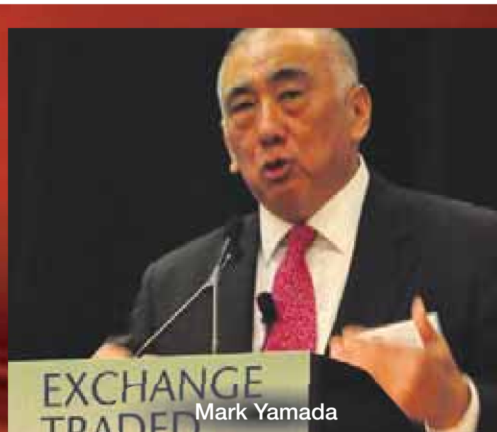
The sometimes complex world of *Commodities Through ETPs* was discussed by **Jeffrey Logan**, Vice President and Director, Claymore Investments, and **Tim Simard**, Managing Director, National Bank Financial Markets. Using ETFs as a strategy in commodities offers diversification, a good hedge against inflation, and risk reduction – but understand what you invest in!

Our keynote speaker, **Richard Jackson**, Director & Senior Fellow, CSIS Global Aging Initiative, discussed *How Global Aging will Reshape the Economy and Financial Markets*. Richard gave a compelling glimpse into the "unprecedented era of hyper aging," where 27% of the population in Canada in 2050 will be age 65 plus, and discussed the fiscal challenges of "greying means paying." Among his future forecasts, living standards may slow as the rates of saving and investment decline, while manufacturing and services will accelerate and shift to the needs of the "new silver demographics."

The last speaker of the day, **Neil Bearse**, Manager, Web-based Marketing, Queen's School of Business, captivated the audience with *Beyond Friends and Fans: Doing Business on the Social Web*. Consider that at least once per month, 57% of online Canadians participate, either reviewing services or contributing. Using lively video examples, Neil illustrated the power of online sites as marketing tools. When it comes to social media links and the financial industry, "this is a customer services tool, not just a social media tool, so get to know the tools available. Your web site is your restaurant."

Wrapping up day two, **Radius Financial Education** held a draw for a 47-inch LCD television that was won by **Laszlo Kramer**. RFE would like to thank our speakers and sponsors for their invaluable contribution in providing a truly educational event. We would also like to thank everyone who completed an evaluation form. Those comments are essential for planning our upcoming events.


Richard Jackson



Mark Yamada


Jaime Purvis


Margaret Gunawan James Loewen Ian Merrill Steve Cook


Andrew McOrmond


Benjamin Tal


Paul Battaglia

Canada's ETF Providers Announce Creation of the Canadian ETF Association

New organization will help raise awareness of $40 billion Canadian ETF industry through education and outreach to private and public sector stakeholders.

Howard Atkinson
President, Horizons Exchange Traded Funds Inc., & Chairman, CETFA

Who were the founding members of the Canadian ETF Association (CETFA)? Where did the idea originate from and are there similar organizations in other countries?

The founding members are BMO ETFs, Claymore Investments and Horizons Exchange Traded Funds. The decision to launch CETFA was the culmination of a number of meetings held between the senior members of each respective firm where we discussed the creation of an ETF industry group that would be able to address industry-wide issues that affect all Canadian ETF providers and have broad implications for all ETF investors.

ETFs have had a phenomenal pace of growth, but it's an industry in its infancy when you compare the size of the ETF industry and its broader influence to other spheres of investment management, such as the mutual fund industry, which is more than 10 times the size of the ETF industry and has a much greater ability to influence investment discourse in Canada, due to its depth of resources.

It can be a daunting task for one ETF provider on its own to champion the merits of ETFs to Canadian investors. Collectively, we have real strength, and of course we all want to champion the merits of ETFs, so it has been a natural and relatively easy process thus far to work together on shared goals.

CETFA

How will the CETFA be structured? Is it a non-profit association? Will there be a board of directors? Who will be the initial chairman?

This is a completely non-profit group in so much as the organization itself will not seek to be profitable. Of course, if successful, more Canadian investors will become familiar with ETFs and their numerous benefits, which should enhance the profitability of the member firms.

The organization is egalitarian, each member firm, regardless of asset-size will have a managing director representing their firm. Each managing director has an equal role in determining the direction of the organization. There will be a chair selected from amongst the managing directors who will serve an as of yet undetermined term length.

The primary role of the Chair will be to serve as a spokesperson for the organization. They will be able to publicly speak on behalf of CETFA and will take a leadership role in building consensus amongst the managing directors. It has been determined that the first chair will be Howard Atkinson, the president of Horizons Exchange Traded Funds.

What is the main focus of the CETFA? What does it support and what are its short term (1 year) and longer term (3 years) goals and objectives?

There are two primary goals for CETFA initially. The first is to create more awareness about exchange traded funds and to provide greater depth of education to investors about their usage.

The second goal would be to deal with industry specific issues, whether they are regulatory or structural, that affect all member firms. CETFA can take an activist role on behalf of all ETF providers to improve industry practices and defend the positions of member firms.

As of yet, no timeline has been set for any of these goals. Once the organization is more fully-formed and the infrastructure is put in place specific initiatives will be established.

Who can join the CETFA? Will members be individuals or firms? What will be the costs associated with membership?

As previously stated, each membership will be determined by firm. The organization will be open to new members. We haven't fully formed the selection criteria yet, but they would definitely have to be involved in the development and distribution of ETFs.

That said, there are a number of people who are important voices in the ETF industry who are not affiliated with ETF providers, such as investment managers, analysts and advisors. We are hoping CETFA will be able to work in partnership with these people to help build a better ETF industry.

Costs for membership have not yet been determined. The organization will need some financial resources, to build out educational programs, a website, as well as marketing and public relations initiatives. Most of the member firms already have in-house expertise in many of these areas, so true to the form of being providers of low-cost investment solutions, we expect to keep the costs low and utilize voluntary resources where we can. ETF people are pretty committed bunch, so we're confident that finding volunteers will not be too difficult.

How does CETFA plan to maintain its independence and unbias in order to effectively promote the ETF industry in Canada?

This will be an arm's length organization run independently from its member firms. It certainly is not without bias. Our core mandates include the promotion of ETFs and representing the interest of ETF providers. We're going to push that agenda hard. However, we will do this with the utmost respect for transparency and a commitment to balanced investor education. We only want to increase ETF usage, if we can show investors why they should be using ETFs and how to appropriately use them. In our view it's in the interest of the entire investment community to have informed investors. We're confident enough in the merits of ETF investing that informed investors will choose ETFs when they are in fact the right tool for their portfolio.

What is the current size of the ETF market in Canada? What can we expect the market to reach in 1 year? 3 years? 5 years?

According to Investor Economics, the current size of the ETF market is approximately $41 billion. It has grown at an annual rate of about 27% a year – mainly from net sales – over the last five years. We would expect that pace of growth to continue. I don't think it's out of the realm of possibility to see ETF assets double within the next three or four years if this pace of growth continues. Keep in mind that at $100 billion, ETF assets would still only be one seventh of the current assets in mutual funds. Since the breadth of the ETF market now allows them to be used as an alternative to almost every mutual fund mandate out there, it's clear to see the asset size of the ETF industry is nowhere near its potential.

Where do you see most of the growth coming from for ETF's in Canada? Instititutional, Portfolio Managers, Advisors, or individual investors?

All of them. Right across the board we're seeing greater uptake from each distribution channel. Direct investors and institutional investors were early adopters of ETF investing. We're seeing increased usage now amongst advisors and portfolio managers as well. I don't think one market is going to be more dominant than the other.

The only caveat is that the advisor channel dominates retail distribution, so in order to have greater ETF penetration with end-investors we'll need to see a greater uptake amongst advisors. We're already seeing that channel pick up and it is being helped by a movement towards fee-based advising.

In your opinion what impact will the growth of the ETF market in Canada have on other areas of investments? Mutual Funds? Hedge Funds? Stock markets?

Here's the thing. Any mutual fund or hedge fund in Canada could potentially be an ETF, they're both governed under the same regulations. The ETF is just a structure. It's like asking whether the MP3 was a threat to the music making business. It certainly is to those who wanted to overcharge for music and rely on CD sales. People still make music and can buy much of what I like to listen to on iTunes or another online music provider for a fraction of what it costs to buy on CD.

If you charge a high-management fee and don't deliver returns to necessitate that fee, you're days are numbered in this business. The low-cost nature of ETFs is allowing them to outperform a huge number of more expensive mutual fund mandates. Investors are getting wise to this. I could see many high-quality investment managers eventually migrating to the ETF platform. We're already seeing that in the United States.

Continued on page 34

Continued from : Canada's ETF Providers Announce... page 33

Please elaborate on the monthly reporting and content will CETFA be providing? Will it be available to everyone? Will it be available via website, digital and hard copy?

It's too early to say at this point. We haven't fully established what we will report and how frequently we will report those statistics.

A major challenge for financial professionals is satisfying the expectations of a more educated and demanding client base? How will the CETFA educate and support the advisor community in Canada?

One thing the mutual fund industry does very well is support advisors. They give them investment ideas, help them create portfolio solutions for end-clients, even support them in business building initiatives that have nothing to do with investing. The ETF industry can do that and more. The vast majority of advisors are committed to delivering quality advice to clients, we can play a role in helping them do that. It's not even a hard proposition at this point, use an ETF and cut your client's portfolio cost in half and get better performance.

One challenge is compensation. Advisors have recognized the value of ETFs, but have had barriers to transitioning their business to use ETFs. I think even that barrier is coming down albeit slowly.

Ultimately, I see ETF providers and CETFA playing a really important role in generating ideas for advisors and offering them support tools to help advisors help clients become more familiar with ETFs and how to appropriately use them in a comprehensive investment plan.

When is the first publication?

Not yet determined, but we are aiming for something this fall.

Howard Atkinson, President, Horizons Exchange Traded Funds Inc.
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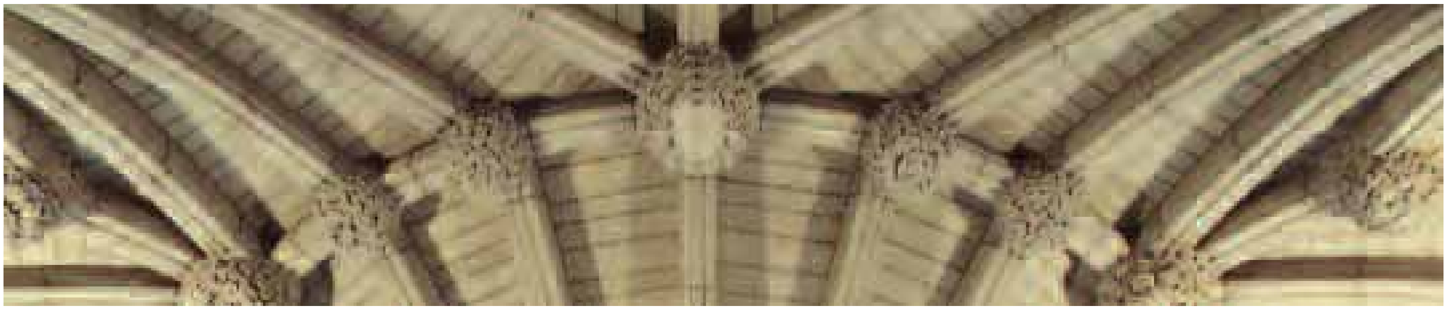

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