

The ABCs of ETFs

by Angele McQuade

SPY. DIA. XBI. QQQ. IJR. VBK. Reads like alphabet magnets thrown onto the refrigerator by a toddler, doesn't it? To many investors, though, there's nothing random about them. If you know SPY has nothing to do with James Bond (in the financial world, anyway), you're likely familiar with exchange-traded funds. ETFs are securities popular with investors looking for the simplicity of index funds and the flexibility of individual stocks.

But if the letters seem as incomprehensible as baby babble to you, you might appreciate a little translation help. (The three-letter combinations at the beginning of this article, by the way, are all ticker symbols for ETFs.) From their introduction into the financial marketplace in the 1990s to their increasing dominance today, ETFs have given investors a simple, cost-effective way to track a market index such as the S&P 500. Sure, you could always buy an index mutual fund, but you wouldn't have as much control over expenses and the timing of tax liabilities. Proponents of ETF investing point out myriad other benefits as well — enough to fill a book, even.

iMoney: Profitable ETF Strategies for Every Investor is brought to you by two such advocates: Tom Lydon, president of Global Trends Investments, and John Wasik, personal finance columnist for Bloomberg News and author of 10 books. Lydon's ETF-education website (and its associated newsletter) follows the trends of investing in this booming industry, which held \$612 billion in assets as of May 2008. Together, the pair has compiled a valuable resource for veterans of ETFs or people simply hoping to learn more about them.

"The core of the *iMoney* philosophy is that you put information — the I in *iMoney* — to work to create knowledge," Wasik says in the preface. "We'll help you avoid powerful yet consistent pitfalls in investing, to use the current information available at etftrends.com and other resources, and other investment research to convert your newfound knowledge into wisdom that you'll be able to use the rest of your life." Pretty ambitious goals, but *iMoney* achieves them.

The book's investing philosophy is simple: "Understand risk, diversify and know what you're doing." Lydon and Wasik jump right in with an elementary education for investors who need it, but I rather enjoyed learning



iMoney: Profitable ETF Strategies for Every Investor

Tom Lydon and John F. Wasik, FT Press (July 2008), hardcover, 256 pages, \$25.99

more about the current debate over indexes that are traditional (such as the price-weighted Dow Jones industrial average) or market-capitalization-weighted (the Vanguard 500) vs. the type of fundamental-index investing advocated by Robert Arnott (founder of Research Affiliates, which created the RAFI), among others.

I've respected and admired many writers whose work I've reviewed over the years, but I'm always especially pleased to revisit a few in particular. Count John Wasik among them: He's a gifted researcher and vibrant storyteller who has a knack for creating informative, enjoyable prose out of even the driest material. His previous book, *The Merchant of Power* (reviewed here in September 2006), was a highlight of my financial reading that year. To my delight, Wasik's in his usual fine form in his new book.

iMoney is designed to give you only the information you need, with the authors advising which chapters to skip and which to pore over, depending on your investing expertise and goals. If you're more interested in lower risk, for instance, they recommend skipping the chapters on commodity- and currency-tracking ETFs (though those sections are certainly as educational as the rest).

Lydon and Wasik end each chapter with targeted strategies and devote the final chapter to model portfolios designed to meet the needs of a wide range of investors. Whether you're what the authors call a Go-Getter or an I'm Outta Here, or something in between, you'll find a list of recommended investments (specific ETFs and how much of your total holdings they should be) matched to your time horizon and financial goals.

The back of the book contains references and a comprehensive set of resources for further investigation, including ETF vendors, websites, books and a longer-than-you-can-believe list of ETFs themselves. By the time you finish surveying them, I have no doubt you'll find you've somehow become a fluent speaker of the alphabet soup language that is the world of ETFs. **B**

Websites of Interest

Tom Lydon/Global Trends Investments
www.etftrends.com