*This is one of 14 articles I ghostwrote for a client.*

**An ETF for Every Purpose!**

In my last article I mentioned the advantages of using Exchange Traded Funds (ETFs) in your investing mix. To help you narrow your focus to the instruments that best fit your wealth building strategy, I've provided an overview of the types of ETFs available.

According to the Investment Company Institute, as of February 2008, US index ETFs included 415 US domestic equity ETFs, 160 global/international equity ETFs and 53 bond ETFs. There are many more funds than these, especially ETFs for foreign markets -- but this is a place to start.

**Index ETFs**

The simplest type of ETFs is the index ETF, which has holdings that attempt to replicate the performance of a stock market index, either by holding the same securities, or a representative basket of the securities, as the underlying index. In addition, some index ETFs place a percentage of their assets into futures, option contracts and other types of securities that the fund manager believes will help the ETF realize its objectives.

**Commodity ETFs or ETCs *(Exchange Traded Commodities)***

Okay, you've heard me talk about investing in metals and commodities. ETFs are the way to do it. Just so you know, ETFs got started with gold exchange-traded funds, which are still offered in many countries. But you need to know a few things about ETFs and ETCs. They are not simple.

First, unlike index ETFs, commodity ETFs generally do not invest in securities. This means they are not regulated under the Investment Company Act of 1940 in the United States. However, they are subject to SEC review at specific stages and are likely to be regulated by the Commodity Futures Trading Commission. All that means is that the police are not always in the room, so there is room for abuse. You want to choose ETFs and ETCs that have a solid track record and show up on the major exchanges.

Another thing to keep in mind about commodity ETFs and ETCs is that the price of a commodity is often impacted by things that are not immediately apparent. These might be the interrelated fluctuations of gold prices, oil prices and currencies.

It might also have to do with structure of the fund itself. Some commodity funds simply roll their contracts forward month to month maintaining exposure to the underlying commodity rather than cashing out. This can expose the investor to different prices along the way as well as racking up interest fees for keeping the contract open.

Wise investors consult with experienced brokers to understand how the investment works.

**Currency ETFs**

Currency trading is mostly about what the international banks charge each other to borrow money and as we all know, the global economy is in major flux. For those interested in trading currencies, educate yourself on ETFs offered by Rydex Investments (CurrencyShares) and Deutsche Bank. Before leaping into any foreign currency trading, you want to narrow your focus to particular

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countries and learn all you can about their economies. Walk this path carefully and do you homework first!

### Bond ETFs

Yes, you can trade U.S. Government bonds with ETFs. Typically, Bond ETFs do well in economic recessions as investors move money out of the stock market and into U.S. Treasuries. That said, like the currency market, Bond ETFs are impacted by broad economic conditions and right now certain bonds are more vulnerable than others. Bond ETFs usually have reasonable trading commissions, although the more parties involved in the bond structure, the higher the fees.

### Hedge Fund ETFs

Sophisticated investors might investigate hedge fund ETFs. These track particular hedge funds, so are sensitive to the strategy of the underlying instrument. Before launching into one of these products, you want to have a good understanding of hedge funds themselves.

### Leveraged ETFs

We hear a lot about the astronomical returns of inverse ETFs and leveraged ETFs (LETFs), so I want to explain what they are so you can put them into perspective. Leveraged ETFs are not simple animals. For example, a leveraged bull ETF fund might attempt to achieve daily returns that are two or three times more pronounced than the Dow Jones Industrial Average or the S&P 500, which means you can get the same results without using margin. That's tempting.

On the other side of the trade, a leveraged inverse bear ETF fund will aim for returns that are two or three times NEGATIVE to the daily index return. If the index goes down, the ETF gains double or triple the *loss* of the market. This avoids the need to apply margin and sell short at the same time.

To add spice to the situation, many leveraged ETFs trade future contracts, which have their own set of rules. If that isn't enough to keep you awake at night, leveraged ETFs are actively managed and can incur steep fees when the markets are volatile. Yes, you can gain two and three times the market movement, but can lose it too.

### A Few Last Words About Actively Managed ETFs

Currently the SEC requires that actively managed ETFs publish their current securities portfolios on their web sites each day. This has created a subculture of front-run traders who like to anticipate what the ETF managers will do and take advantage of market arbitrage, which weakens the performance of the fund itself. As a result, some ETFs chose to trade less frequently, so that might be a factor in your choice of instrument. You can see why leveraged ETFs are not for beginners.

I know. It's complicated. ETFs come in all shapes and sizes and with a full range of risk and reward. Some are relatively straight forward and accessible for the not-so-experienced trader, while others require deep understanding of market makers and fund managers.

Still, with the menu of choices available, I'm convinced that Exchange Trade Funds are the most diversified, convenient and flexible vehicle for investing in today's market. As always, consult your broker, advisor and/or tax consultant before diving in.

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