U.S. ETF and ETP assets break through $1 trillion milestone

Assets in U.S.-listed exchange traded funds (ETFs) and exchange traded products (ETPs) broke through the $1 trillion milestone – reaching $1.027 trillion – for the first time on 16 December 2010, according to BlackRock's Global ETF Research and Implementation Strategy Team.

As of 16 December 2010, in the U.S., there were 894 ETFs with assets of $887.2 billion from 28 providers on two exchanges. At the end of December 2009 the U.S. ETF industry had 772 ETFs with assets of $705.5 billion from 29 providers on two exchanges. Until 16 December 2010, 171 new ETFs have been launched in the U.S. with another 828 new ones in the pipeline, while 49 ETFs were delisted.

Additionally, as of 16 December 2010, there were 185 ETPs listed in the U.S. with assets of $115.5 billion from 20 providers on one exchange. At the end of December 2009, there were 142 ETPs with assets of $88.1 billion from 17 providers on one exchange.

ETFs are index-based open-ended funds that can be bought and sold like ordinary shares on a stock exchange. They have become popular and widely used investment vehicles to facilitate many investment and diversification strategies – from short-term tactical applications to longer-term strategic applications. The ETP industry also includes other product structures such as trusts, partnerships, commodity pools and notes.

Capturing benchmark performance

Growth in the U.S. market for ETFs and ETPs reflects expansion in the use of the vehicle through retail channels as well as their continuing popularity among institutional investors of all kinds, said Deborah Fuhr, Global Head of ETF Research and Implementation Strategy at BlackRock.

"Increasingly both retail and institutional investors are building global, multi-asset portfolios that are designed to capture the performance of key benchmarks for attractive market sectors – an application for which ETFs and ETPs are particularly well suited", according to Ms. Fuhr.

ETF providers are expanding their product ranges into more specialized areas to cater to the growing number of professional and retail investors using ETFs as advanced portfolio construction tools. The increasing availability of these highly specialized ETFs and ETPs across the full spectrum of equities, fixed income and alternative investments means that investors can use these vehicles to instantly deploy capital to take advantage of new investment opportunities – with complete transparency into the underlying investments as well as low cost.

Cost features make ETFs and ETPs among the most "democratic" of investments, as a product's pricing is consistent regardless of the type of investor or level of assets invested.

Growing interest in North American equity and emerging markets

Net new asset flows for U.S.-listed ETFs for 2010 provide evidence of growing interest in both developed and emerging-markets equity ETFs/ETPs, with these flows greater than in 2009, according to Ms. Fuhr. At the same time, net new asset flows indicate less focus on fixed income and commodities.

Through November 2010, net new flows into North American equity ETFs/ETPs totaled $21 billion compared with just $2 billion in 2009. Over the same time period in 2010, flows into emerging-markets equity ETFs/ETPs overall totaled $29 billion compared with $27 billion the year before. Of this total, flows into "multi-region" emerging-markets products totaled $26 billion from January to November 2010 compared with $16.7 billion in the same period 2009.

Flows into fixed-income products totaled $31.2 billion through November 2010 compared with $44.8 billion the year before, and flows into commodity products totaled $11.4 billion compared with $32.6 billion in 2009.

Through November 2010 the ETF average daily trading volume in US$ increased by 26% to $57.7 billion. ETF trading volume in November 2010 accounted for 24.1% of all U.S. equity turnover.

An educational need marketwide

Growth in the utilization of ETFs and ETPs – as well as the expanding diversity of the product set – is leading to greater urgency for a marketwide educational effort according to Ms. Fuhr. "Investors need to understand that under the overall ETF/ETP umbrella, many different product structures, underlying investments (securities, futures, physical commodities etc.), regulatory regimes and tax treatments are represented. Within the gold category, for example, an investor can find funds and notes based on physical gold, gold futures, gold mining stocks – each with quite different performance, regulatory and tax implications."

As market growth and product innovation proceeds, it will become only more essential for investors of all kinds to deeply understand the full range of ETF and ETP structures, benchmarks, underlying features and applications, if they are to most effectively realize all the many potential benefits of the ETF/ETP approach.

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