

# ETF SUCCESS FOUND AT DIFFERENT LEVELS

By Drew Voros | August 03, 2016

When you hear talk about the ETF issuers and the industry, certainly much of it has to do with how the big ETF issuers keep getting bigger, and that while the barrier to entry for a new fund is low, the threshold for success is very high, especially for smaller players.

While much of that may be true, it's easy to fall into the trap that success is too steep a hill to climb for most, because in fact, it can really be found at all levels of the ETF spectrum.

Of course, at the top end of the ETF League is BlackRock's [iShares brand](#), which should soon become the first issuer to amass \$1 trillion in assets. As of the end of July, the firm had some \$915 billion, nearly \$100 billion more in assets under management than it had at the end of July 2015. You don't need to be a math whiz to see that the \$1 trillion mark could easily be achieved in 2017.

And [Vanguard](#), the No. 2 ETF issuer as measured by AUM, has also had a strong past 12 months, going from roughly \$477 billion to \$560 billion in those same 12 months, which is a bigger percentage increase than iShares. Few would be surprised by those two examples of success. We hear about them all the time.

## SIZE DOESN'T MATTER

But the point of this piece is to shed some light on a few success stories that are not as apparent or repeated. Case in point would be [Charles Schwab Investment Management](#), which, in percentage terms, had a better 12 months in attracting assets than the oft-talked-about Top Two.

The firm has been quietly climbing the ETF leader board, and last month, the firm topped \$50 billion in assets, up more than 40% from its assets level of about \$35 billion at the end of July 2015, making it now the fifth-largest ETF issuer.

The company has been offering commission-free Schwab ETFs on its platform, and has become the leader in cutting expense ratios as well. Out of the 20 cheapest ETFs on the U.S. market, 10 are from Schwab—double the nearest competitor, iShares, which has five.

## 20 CHEAPEST ETFs

TICKER	FUND	ISSUER	EXPENSE RATIO
XLRE	Real Estate Select Sector SPDR Fund	SSgA	0.00%
EWRE	Guggenheim S&P 500 Equal Weight Real Estate ETF	Guggenheim	0.00%
<a href="#">SCHB</a>	<a href="#">Schwab U.S. Broad Market ETF</a>	<a href="#">Charles Schwab Investment Management</a>	0.03%
<a href="#">SCHX</a>	<a href="#">Schwab U.S. Large-Cap ETF</a>	<a href="#">Charles Schwab Investment Management</a>	0.03%
ITOT	iShares Core S&P Total U.S. Stock Market ETF	BlackRock	0.03%
VTI	Vanguard Total Stock Market Index Fund	Vanguard	0.05%
VOO	Vanguard S&P 500 Index Fund	Vanguard	0.05%
<a href="#">SCHZ</a>	<a href="#">Schwab US Aggregate Bond ETF</a>	<a href="#">Charles Schwab Investment Management</a>	0.05%
BND	Vanguard Total Bond Market Index Fund	Vanguard	0.06%
<a href="#">SCHG</a>	<a href="#">Schwab U.S. Large-Cap Growth ETF</a>	<a href="#">Charles Schwab Investment Management</a>	0.06%
<a href="#">SCHV</a>	<a href="#">Schwab U.S. Large-Cap Value ETF</a>	<a href="#">Charles Schwab Investment Management</a>	0.06%
IVV	iShares Core S&P 500 ETF	BlackRock	0.07%
<a href="#">SCHD</a>	<a href="#">Schwab US Dividend Equity ETF</a>	<a href="#">Charles Schwab Investment Management</a>	0.07%
<a href="#">SCHA</a>	<a href="#">Schwab U.S. Small-Cap ETF</a>	<a href="#">Charles Schwab Investment Management</a>	0.07%
<a href="#">SCHH</a>	<a href="#">Schwab U.S. REIT ETF</a>	<a href="#">Charles Schwab Investment Management</a>	0.07%

TICKER	FUND	ISSUER	EXPENSE RATIO
SCHM	Schwab U.S. Mid-Cap ETF	Charles Schwab Investment Management	0.07%
SCHP	Schwab US TIPS ETF	Charles Schwab Investment Management	0.07%
IUSG	iShares Core U.S. Growth ETF	BlackRock	0.07%
IUSV	iShares Core U.S. Value ETF	BlackRock	0.07%
AGG	iShares Core U.S. Aggregate Bond ETF	BlackRock	0.08%

Schwab has also helped itself with its robo service, Intelligent Portfolios, which uses Schwab ETFs to deliver automated portfolios for the masses. Certainly that ecosystem of commission-free ETFs—very cheap to own ETFs and a robo service using Schwab ETFs—is fueling growth in a unique way.

### ‘PERSEVERANCE’ PAYS OFF

Further down the scale, there are other success stories that few talk about. Take the example of the 3-year-old [YieldShares High Income ETF \(YYY\)](#), which tracks an index of U.S.-listed closed-end funds, weighted by yield, discount to net asset value and trading volume. The fund was started by Christian Magoon, former president of Claymore Securities, which was acquired by Guggenheim Investments.

Last month, the ETF surpassed \$100 million in assets in three years, which many small issuers would tell you is a steep hill to climb.

“Perseverance has been key,” Magoon said. “As a smaller ETF, we haven’t had any of the platforms at the larger broker-dealers accept the fund, which is too bad for those advisors and clients. Perhaps that will change, but fortunately we knew not to count on them.”

YYY’s performance for the year so far has been strong, up 15.4% to SPY’s 6.6%, and it comes with a distribution yield of 9.86%. Because of the expense that comes with closed-end funds, the expense ratio is 1.86%.



"We still believe buying a basket of CEFs [closed-end funds] at a significant discount to net asset value is an investment opportunity that produces an above-market income stream and capital appreciation potential. We hope the size of the fund today will allow new investment professionals to consider this income solution going forward," he added.

Magoon will be folding YYY into his new firm that he launched this year, Amplify Investments, where in April he launched a second ETF, the [Amplify Online Retail \(IBUY\)](#) and is planning more as well. He also realizes he is back at the bottom of the hill with IBUY, which has \$2.6 million in assets.

Success doesn't come easy in any endeavor. There have been more than 60 ETFs that have closed or announced they will be closing this year. While it may be that the big are only getting bigger in the ETF world—[State Street's SPY](#) is about to top \$200 billion in assets any day now—the ETF industry is full of success stories in the mid- and lower-tier ranks as well. I will strive to point out more of these in the future.

At the time of writing, the author owned none of the ETFs mentioned. Drew Voros can be reached at [dvoros@etf.com](mailto:dvoros@etf.com).

---

\*Restrictions apply: Online trades of Schwab ETFs™ are commission-free at Schwab, while trades of certain 3rd party ETFs are subject to commissions. Broker-Assisted and Automated Phone trades are subject to service charges. See the Charles Schwab Pricing Guide for more details. All ETFs are subject to management fees and expenses. An exchange processing fee applies to sell transactions.

**Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 1-877-824-5615 or by visiting [www.csimfunds.com/prospectus](http://www.csimfunds.com/prospectus). Please read the prospectus carefully before investing.**

Investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the ETF. ETF shares are bought and sold at market price, which may be higher or lower than the net asset value (NAV).

All ETFs are subject to management fees and expenses.

Schwab ETFs™ are distributed by SEI Investments Distribution Co. (SIDCO). SIDCO is not affiliated with The Charles Schwab Corporation or any of its affiliates.

Charles Schwab Investment Management, Inc. is the investment advisor for Schwab ETFs and an affiliate of The Charles Schwab Corporation.

Please read the Schwab Intelligent Portfolios' disclosure brochures for important information.

Schwab Intelligent Portfolios is made available through Schwab Wealth Investment Advisory, Inc. (SWIA), a registered investment advisor. Portfolio management services are provided by Charles Schwab Investment Advisory, Inc. (CSIA). SWIA and CSIA are affiliates of Charles Schwab & Co., Inc. and subsidiaries of The Charles Schwab Corporation.

