

Tom Mullooly : In this episode, we're going to compare ETFs with ETNs. For a lot of you, we're going to talk about ETNs for the first time. Then we're going to compare Mutual Funds with Exchange-Traded Funds. Meet the new boss, same as the old boss.

Welcome to the Mullooly Asset Show, I'm your host Tom Mullooly, this is episode number 15, The Beltran. In this episode, just like all the others, what we do is we get topics that we're talking about with our clients and we turn them into questions. A lot of times, we wind up getting questions directly from clients, so if you're thinking about a topic that you'd like us to cover, get in touch with us, it's probably going to wind up on a future video. The format of this videos the way they work, Casey reads the questions to us, I try and answer them the best we can. Casey, what's on top, first question today?

Casey: What's the difference between an ETF and an ETN?

Tom Mullooly : That is such a great question and thanks for paying attention on Twitter and seeing that. Exchange-Traded Funds and Exchange-Traded Notes sound the same, one is an ETF, one is an ETN, what's the difference? An Exchange-Traded Fund is a basket of investment. It could be stocks, it could be bonds, but it's a basket. You can't really get hung up on an Exchange-Traded Fund that only trades 5,000 or 7,000 or 10,000 shares a day, that really shouldn't matter that much. With an Exchange-Traded Fund, the underlying basket, the components of it are really what matter the most. If you look at say the top 50 stocks that make up an Exchange-Traded Fund, they could have millions and millions of shares traded every day. ETFs, their price during the market hours, their prices get updated every 15 seconds based on what's happening with the underlying stocks, so we kind of have a good grasp of what happens with an ETF, an Exchange-Traded Fund.

But what the heck is an ETN? That's an Exchange-Traded Note. Now, you don't see them very often. In fact, I think the ratio is something like 10 to 1 ETFs to ETNs, but you're going to find Exchange-Traded Notes often are issued when you're trying to invest in currencies or in commodities. Now, think about, in the world of currencies and commodities, there's a lot of leverage and so in addition to just buying the underlying commodity, you can also invest through ETNs but also some ETFs, but in ETNs, in leveraged funds. So you can buy ... If you think the price of gold is going way up, you could buy a double-leveraged bond or a triple-leveraged bond, there are things out there. Likewise, if you think that the price of a commodity is going down, you could buy a double-leveraged fund inverse, or a triple inverse fund, they work that way.

The main thing, the key thing that you've got to remember with ETNs, very different from ETFs, ETN is an Exchange-Traded Note, it's an unsecured debt instrument, it's a senior debt instrument of the company that issues that, so you're not completely invested in the currency or the commodity, you're more like taking a bet on how that company is going to do. A good way to wrap this all up is, with an Exchange-Traded Fund where you've got that underlying basket that gets repriced

every 15 seconds, so technically, you've got some market risk, you've got tracking error, there might be a little bit of slippage in your price, but with an Exchange-Traded Note, you don't have that tracking error, you've got credit error, you've got the potential for some real credit risk. That is a awesome, awesome question, thanks for bringing that up. Exchange-Traded Notes in general, you're taking a big bet on the issuer, the bank that's issuing it, it's just not something we want to get involved in, in general. All right Casey, let's move on, we've got to celebrate, The Beltran here today, give me a good question for number two.

Casey: What happens if I'm in an ETF and I get a notice that it's closing?

Tom Mullooly : That is a really good question and something that a lot of people don't understand because it doesn't happen very often, but being in an Exchange-Traded Fund that's closing is not necessarily bad. I think that a lot of people in my line of work look at that and they say, oh that's terrible that you're in an investment that's closing, because when a Mutual Fund would close, it would close because of poor performance. There's just not a lot of shareholders or really bad performance and the money has just been drained out of the fund in the last couple of years and that Mutual Fund company decides, ah, we're just going to shut it down, it's not good and they need to move on. With an Exchange-Traded Fund, they may say, hey, you know what, we're just not getting the assets under management that we thought we would, so we're going to close it. It does happen, but it doesn't happen a lot.

So what happens, what happens to you when your ETF notifies you that, hey, we're going to close in May, or we're going to close in July, what actually happens? Remember, that an ETF may not have the volume, it may not have 5,000 or 10,000 shares traded or 100,000 shares traded everyday, but what you're actually owning is a basket of stocks that are trading every day like crazy on the New York Stock Exchange or over the counter. What really matters is the volume of the components, the things that make up the basket. On the last day of trading if you're still in the ETF, what are you going to get? You're going to get the liquidation value of the stocks that make up that basket.

Now, let's say one of the stocks in your basket is IBM, how many baskets, how many ETFs is IBM in? I can't even count, they are in so many. So just because your ETF is closing and they're going to liquidate it at the end of the day today, it doesn't mean that IBM is going to go down, it doesn't make it a bad investment. All that's happening is, if this basket is closing, you're going to get the closing price that day and you're going to get money deposited back into your account. It's actually a pretty good way to go, so it's not a sign that you are in a bad investment or something that's done very poorly, it's just another opportunity to do something else. I thought that was really a very good question to ask and something that doesn't come out very often. A lot of people just don't understand it, so a good one to close out on.

That wraps up episode 15, The Beltran, thanks for watching. Episode 16 our next one is going to be, let's see, John Stearns who we talked about in episode 12 will be

back because he wore 12 with The Mets, but he also wore 16. Then also another famous 16 back from the 80s, the doctor, Dr. K, thanks for the memories on that one. Thanks again for watching. If you're watching this on You Tube, don't forget to hit that red button down there that says "subscribe." We'll see you next on episode number 16.