Tom Mullooly:
In episode 247, we talk about four reasons why we use exchange traded funds for our investments. Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly, and this is episode 247. Thanks again for tuning in. We use ETFs and we use them almost all the time now with our investments here at Mullooly Asset Management. Why? Well, we're going to walk through a couple of reasons why we think you ought to consider using ETFs or exchange traded funds for your investments as well. We rebalance and we also move money in and out of our tactical positions throughout the year. So when things change, we want to find an efficient way to do this. So when you look at indices like the S&P 500, for example, they rebalance all the time. They're dropping names that don't fit the criteria. They're adding other names. All indices do this. We see the MidCap 400 do this, the SmallCap 600, even the Dow Jones is going to change names periodically. We're going to see other global indices do this as well.

Tom Mullooly:
So in the 1980s, when I got started in the business, if an individual person wanted to mirror or mimic the S&P 500, they had to buy all 500 stocks and they had to buy them in the right proportion. They had commissions on top of every single transaction. That's 500 trades they had to make. So the first reason why we use exchange traded funds, if we owned individual stocks, you'd have to pay capital gains every single time that we made a change. Now, last year, we saw the whole work from home ideas working. So things like Peloton worked. That stock went from the mid-20s up to $100. Zoom was another popular stock. That stock went from the mid-60s up over $300. If we had to make a change or rotation out of internet names or the work from home portfolio, you'd be paying taxes every single time that we did this and you wouldn't be too happy. There weren't too many people who were too happy when it was time to move out of these stocks.

Tom Mullooly:
For instance, if you've got a theme based investment, something that buys, I don't know, value stocks or something that buys momentum stocks, all of those changes are happening under the hood so we don't have to do the rotation ourselves. So the second reason why we use ETFs is when a sector or an asset class changes, it's really hard to come up with the top one or two or three names. If you've ever seen a school of fish change direction, you know what I'm talking about, when a sector changes, the whole sector changes all at once or a whole asset class will change. All of a sudden, we'll see small caps come back into prominence.

Tom Mullooly:
So the third reason why we use ETFs, if we owned mutual funds instead of ETFs, you're still going to be paying capital gains. They're just passed along to you, and these funds typically come, they often come with bigger management expenses tacked onto them. So not very efficient. The fourth reason why, we threw in a couple of bonus reasons here, why we use ETFs, so what you need to understand is we can buy and sell exchange traded funds now at most brokers, including TD Ameritrade and Schwab, we can buy and sell them without any kind of commissions included. That's to your benefit. The gain with an ETF is merely the difference between, "Hey, I bought it here at this price and I sold it here at that price." The difference is the taxable gain. That's much, much different than being in a mutual fund.

Tom Mullooly:
We've also found that the expenses associated with exchange traded funds are the lowest we're going to find almost anywhere. So if you're looking to get a diverse basket or an index, or more than an index, even trying to buy several of them and get properly allocated across the market, we found that exchange traded funds are probably the most efficient way to do it and in your best interest. That's part of what a fiduciary does. So that's the message for episode 247. Don't be up worrying about the market 24/7. Kind of a poor joke there at the end of the video. Thanks for watching.