5 REASONS TO CONSIDER SWITCHING FROM MUTUAL FUNDS TO ETFS

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WisdomTree launched in 2006 with a novel idea—generate the alpha that investors expect from active mutual funds, but in a better investment wrapper: ETFs.

Nearly 14 years later, ETFs have seen record inflows, but we believe the shift from mutual funds to ETFs will only accelerate from here. Why? The ETF wrapper offers many advantages to investors over mutual funds, including:

1. **Tax Benefits**. When portfolio managers make changes in a mutual fund, those changes create taxable events for its investors. In some cases, shareholders of a mutual fund can get hit with a capital gain tax even when the mutual fund has negative performance. This is not the case for ETFs. In most cases, when you buy an ETF the applicable taxes are based on the price difference between the times exchange-traded fund shares are bought and sold.
2. **Simplicity**. ETFs have no paperwork. You simply buy or sell the ETF like a stock—one price with one easy transaction. Mutual funds require paperwork and typically have a short waiting period before your money is invested.
3. **Cost Effectiveness**. On average, ETFs have lower expense ratios than mutual funds. In fact, according to ICI, in 2018 the average active mutual fund still charged around 2.5 times more than the average ETF.[1]
4. **Transparency**. ETFs show their underlying holdings every day, while mutual funds only show their holdings at the end of the quarter. During market volatility, it is important to know what you own.
5. **Liquidity**. ETFs can be bought and sold throughout the day like a stock. Mutual funds, on the other hand, can only be bought and sold at the end of the day. In volatile markets, ETFs can be a great tool to establish positions quickly. Also, there is no barrier to exit ETFs. In contrast, certain class shares of mutual funds may have redemption fees.

With all the benefits of the ETF structure, it's no wonder investors put more money into ETFs than mutual funds in 2019.[2]

The great news is that when you marry the advantages of the ETF structure with WisdomTree's Modern Alpha® approach, you have the potential to outperform.

With the recent volatility in the markets, now is a great time to consider switching from mutual funds to ETFs.

[1]Source: "Trends in the Expenses and Fees of Funds," ICI Research Perspective, 2018. Ordinary brokerage commissions apply.
[2]Source: "Breaking down a record year for ETFs," Investment Executive, 2020.

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DEFINITIONS

Alpha : Can be discussed as both risk-adjusted excess return relative to a specific benchmark, or absolute excess return relative to a benchmark. It is sometimes more generally referred to as excess returns in general.

Actively managed mutual funds : Investment strategies that are not designed to track the performance of an underlying index.

Capital gains : Positive difference between the sale price of an asset and the original purchase price.

Volatility : A measure of the dispersion of actual returns around a particular average level.