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## Signature Estate &amp; Investment Advisors LLC

Theodore E. Saadé, CFP®, AIF®, CMFC, Senior Partner

# “Why might **smart beta ETFs** be a ‘Goldilocks’ investment?”

By Theodore E. Saadé

Since 1993, when State Street Global Advisors first launched Standard & Poor's Depositary Receipts (SPDRs) to track the S&P 500, exchange-traded funds (ETFs) have become extremely popular investment vehicles among institutional and individual investors alike.

Offering convenient and affordable exposure to a wide range of markets and investment categories, ETFs as of today have amassed over \$1.3 trillion in assets under management. These traditionally index-linked vehicles are relatively straightforward for investors to understand (your investment value simply goes up and down along with the index being tracked).

What's more, they offer some key inherent advantages compared to the common mutual fund investment structure.

Unlike traditional mutual funds, where daily redemptions can necessitate rebalancing costs and create cash drag, the creation/redemption in-kind feature of ETFs helps them avoid these costs and allows them to better manage capital gains by transferring out securities with high, unrealized gains as part of the redemption process.

**The Emergence of Smart Beta ETFs:** With increased volatility in today's markets, a new variation on the ETF theme has emerged: smart beta ETFs. While highly correlated to their benchmark

indices, smart beta ETFs use a rules-based methodology that enables them to maneuver within the confines of an index in an effort to boost returns or mitigate downside risk by over-weighting individual components believed to have a higher upside potential—and under-weighting those securities the manager expects to lag. **In other words, you're not merely buying a stagnant index.**

Essentially, these are index funds that integrate specific elements of active management. That doesn't mean there's a fund manager picking individual stocks, but rather that the fund is created using a predetermined set of rules dictating the weightings of stocks in the index and what other strategies will be employed in the fund.

But unlike a typical actively managed mutual fund, where the manager is continuously buying/selling and generating considerable taxation through high portfolio turnover, smart beta ETFs are structured to be considerably more tax-efficient—because investing isn't just about making more money, it's also about protecting what you make from tax erosion.

Typically low-cost and transparent, like index strategies, smart beta ETFs usually have a fundamental objective (e.g., controlling the downside impact of market volatility or generating higher

income) to which the fund is managed.

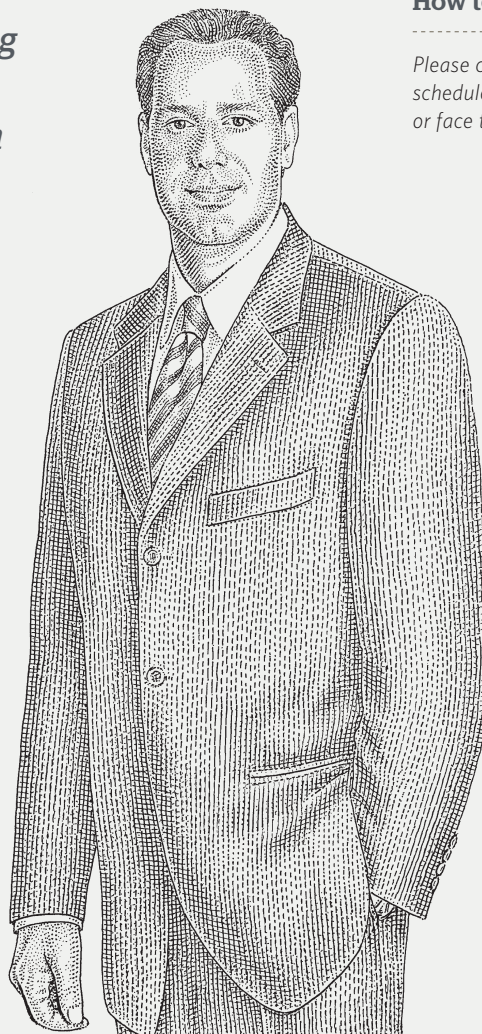
According to Morningstar, in just the past few years, the number of smart beta ETFs in the United States has grown to over 350, managing more than \$230 billion in assets. Investors and advisors alike are viewing these products as a flexible means to increase alpha over passive indexes. They do this by using either capitalization or factor weights, and they control volatility, protect portfolios in down markets and efficiently manage taxes.

Much like Goldilocks, more and more investors are gravitating to smart beta ETFs as an investment solution that seems to fit *just right*—meaning that they're not so active as to be tax-inefficient, and not so passive as to eliminate the opportunity for any market outperformance. **Instead, they're a solution that sits smack dab at the crossroads of active and index investing, incorporating the beneficial elements of both.**

Keep in mind, however, that because smart beta ETFs are exchange-traded funds, transaction fees related to your individual brokerage account will need to be factored into any investment decisions. Talk to your financial advisor about this emerging new class of investments, and explore whether they might be a valuable and beneficial addition to your portfolio. ☺

*“More and more investors are gravitating to smart beta ETFs as an investment solution that seems to fit just right.”*

—Theodore E. Saadé



#### How to reach **Theodore E. Saadé**

Please call my office at 310.712.2323 to schedule a meeting, either over the telephone or face to face.

#### WHAT MAKES A GOOD WEALTH ADVISOR...

An experienced and qualified person with a relentless desire to exceed expectations and ensure the client's well-being

#### MY HOBBIES ARE...

Traveling and spending quality time with my family— they ground me and remind me to always be the best that I can be

#### I NEVER LEAVE HOME WITHOUT...

Kissing my wife and three boys goodbye

#### About Theodore E. Saadé

Theodore E. Saadé has been in the financial services industry since 1995. He joined Signature Estate & Investment Advisors LLC in 1997 as the firm was opening its doors. In less than 10 years, SEIA reached the milestone of \$1 billion in assets under management. Mr. Saadé is a Certified Financial Planner, Accredited Investment Fiduciary and a Chartered Mutual Fund Counselor. He received a bachelor's degree in economics with a specialization in biochemistry from the University of California–Los Angeles. Mr. Saadé specializes in overall wealth and investment management strategies for affluent individuals, foundations and corporations. A longtime resident of Los Angeles, he is involved in multiple charities throughout Southern California.

Assets Under Management  
\$5 billion (firm, as of 10/31/15)

Minimum Fee for Initial Meeting  
None required

Minimum Net Worth Requirement  
\$5 million (Private Client Group)  
\$2 million (estate planning)  
\$500,000 (investment services)

Largest Client Net Worth  
Confidential

Financial Services Experience 20+ years

Compensation Method  
Asset-based and fixed fees

Primary Custodian for Investor Assets  
Charles Schwab & Co and Fidelity Investments

Professional Services Provided  
Planning (estate, retirement, corporate, income tax and insurance),  
investment advisory and money management services

Website  
[www.seia.com](http://www.seia.com)

Email  
[tsaade@seia.com](mailto:tsaade@seia.com)



Theodore E. Saadé, CFP®, AIF®, CMFC  
*Senior Partner*

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**Signature Estate & Investment Advisors LLC**

2121 Avenue of the Stars, Suite 1600

Los Angeles, CA 90067

Tel. 310.712.2323

[tsaade@seia.com](mailto:tsaade@seia.com)

[www.seia.com](http://www.seia.com)

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