

BENEFITS BLOG

INSURANCE BLOG  
DIRECTORY

INSURANCE  
BROADCASTING  
HOME PAGE

INSURANCE  
NEWSCAST

INSURANCE M&A,  
EQUITY NEWS

INSURANCE NEWS  
HEADLINES

INSURANCE  
MEETINGS

INSURANCE MEDIA  
ASSOCIATION

INSURANCE  
REGULATION

INSURANCE  
TECHNOLOGY BLOG

INSURANCE  
PERSONNEL NEWS

INSURANCE  
WEBINARS

WORKPLACE  
BENEFITS  
ASSOCIATION

INSURANCE  
NEWSCAST MOBILE  
EDITION

ABOUT INSURANCE  
BROADCASTING

CONTACT  
INFORMATION



Your Insurance News "Strategic Relationship"

*"Revolutionizing the way insurance information is  
acquired, shared and communicated."*

Tuesday, 1/13/09



Walt Podgurski, CEO

### Leveraged ETFs: How Not To Get Killed By The Spread

Leveraged exchange-traded funds can trade at big premiums—as high as 10% intraday—from their net asset value. This is the spread—the difference between the bid and ask price.

Leveraged ETFs are double-inverse funds. They go up or down twice as much as the index they're based on—in the opposite direction.

If you pay a big spread when buying a leveraged ETF, you're starting out in an unnecessary hole, says Chad Norfolk, CFP, a senior financial advisor at Financial Advantage, an investment and planning firm in Columbia, Md. Much like closed-end funds, ETFs' market value can fluctuate significantly from their net asset value (NAV) during the trading day.

There's a simple rule for avoiding this pitfall when buying leveraged ETFs and turning the spread to your advantage when selling: Always use limit orders, Norfolk says. Never use market orders.

"The ability to name your price is a big advantage over mutual funds, where you're stuck with the closing price that day," Norfolk says

Some professional investors use sophisticated trading techniques to reduce spreads. Financial Advantage, for instance, employs a trading technique that uses an electronic algorithm called a VWOP when buying ETFs for clients.

"This allows us to set our price using a limit order and disguise the trade from the overall market," he says.

The VWOP splits the trade up into small anonymous orders that are traded over a set time period with a price limit. "For instance, we'll buy 100,000 shares at a limit of \$20 from 1 to 3 p.m."

Without the VWOP, buying such a large block would probably drive up the spread.

Recently, Financial Advantage moved out of several mutual funds into the ETF equivalents. The ETFs offer much more flexibility in executing trades, which has become critical with the huge, fast swings in the market, Norfolk says. Additionally, they offer lower management expenses.

But all these advantages can be negated if you pay too much when buying, or get too little when selling, so watch the spread, he counsels.

Financial Advantage, located in suburban Baltimore, provides personal financial planning and investment-management services to retirees and aspiring retirees on a fee-only basis. It has more than \$200 million under management. Wealth Manager magazine has named Financial Advantage as one of the top 250 independent financial advisory firms in the country. Web: [www.financialadvantageinc.com](http://www.financialadvantageinc.com)

Contact: Henry Stimpson, Stimpson Communications, 508-647-0705, [Henry@StimpsonCommunications.com](mailto:Henry@StimpsonCommunications.com)

Chad Norfolk, Financial Advantage, 410-715-9200, [cnorfolk@financialadvantageinc.com](mailto:cnorfolk@financialadvantageinc.com)

[\(Return to INSURANCE NEWSCAST\)](#)