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Sujet traité : Les investisseurs devraient éviter une nouvelle génération de fonds négociés en bourse frauduleux / Investors should avoid a new generation of rip-off ETFs

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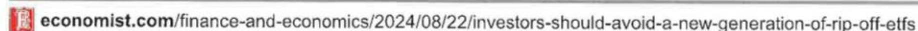
Investors should avoid a new generation of rip-off ETFs



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The Economist

Illustration: Satoshi Kambayashi

John Bogle, founder of the Vanguard Group and pioneer of index funds, may have saved investors more money than anyone else in history. By some estimates, his crusade to drive down fees has, over the past five decades, left them with more than $1trn that would otherwise have gone to fund managers. Index funds, through which speculators can invest in the stockmarket as a whole, cut out the middlemen. In doing so, they have transformed the world of investing.

But when it came to exchange-traded funds, the investment vehicle through which people commonly invest in index funds, Bogle was sceptical. The first ETFs were launched in 1990, a decade-and-a-half after Bogle's first passive mutual fund. They came with the ability to buy and sell shares instantaneously. To the godfather of passive investing, minute-by-minute trading made them a "wolf in sheep's clothing". He believed they would become a vehicle for speculation and chasing market fads, rather than long-term investment.

Bogle was wrong about ETFs in general, which transpired to be a perfect pairing with his long-term ideals. Yet several new types of ETF suggest he may not have been entirely wrong to worry that they would be used poorly. Some are what Peter Atwater of Financial Insyghts, a consultancy, calls "financial turduckens": vehicles created more because it is possible than

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because it is wise. Most important to the firms that provide them, the complicated new vehicles produce a stream of fees and are proving popular. Inflows into actively managed ETFs have risen from less than $5bn in 2019 to over $100bn last year.

The first "defined-outcome fund", or buffer ETF, was launched six years ago. Such funds offer investors an enviable-sounding opportunity: hold stocks, with protection against falling prices. All they must do is forgo annual returns above a certain level, often 10% or so. Inflows have soared this year as investors seek protection from a potential market slump and inflation, leaving such funds with $44bn under management. Over the long term, however, they are a terrible deal for investors. Much of the compounding effect of stock ownership comes from rallies. Since 1980 the S&P 500 index has yielded annual returns exceeding 10% in 27 years. It has dropped by 10% or more only four times. An investor with returns capped at 10% and protected from losses would have made a real return of 403% over the period, a fraction of the 3,155% return offered by just buying and holding the S&P 500.

Another new type of ETF is the "semi-transparent" vehicle, which fund providers have promoted since American regulators permitted them in 2019. These allow managers to disclose assets once a quarter, as with mutual funds, instead of every day. According to advocates, this prevents them from being front-run by competitors. The difficulty is that regularly updated knowledge of what is inside an ETF allows buyers and sellers to price its shares. Semi-transparent eTFs rely instead on a labyrinth of intermediaries given special access, or proxy releases that disclose a limited amount of information—all but defeating the point of an ETF wrapper. So far, investors have been duly sceptical. Only one fund holds assets worth more than $1bn.

Worse may yet be to come, however. Private-market ETFs would bundle unlisted assets—whether private equity, debt or property—into tradable ETFs. BlackRock, an asset manager, last month announced its intention to buy Preqin, a private-markets-data provider, in part to build private-market indices and, in time, ETFs to match. But private assets are not just an unusual complement for an ETF wrapper; they may prove to be a dangerous one. Putting illiquid assets in a tradable wrapper defies the main mechanism by which the funds operate. When investors buy and sell shares in the ETF, it is impossible for the provider to buy and sell the holdings to match. At scale, the funds might pose a risk to financial stability. Liquidity could vanish in a crisis, as investors dump ETF shares, while providers are unable to sell assets.

The original pairing of the ETF and the passive-investment revolution was a triumph, combining the ability to buy and sell at ease with lower fees. Many of the new forms of ETF lack one or even both of these advantages. Their issuers are the overwhelming beneficiaries, extracting fees from investors who end up overpaying for volatility protection, for opacity they hardly need or even for a concerning mismatch in liquidity. As such, the new generation of funds is turning Bogle's fears into a reality. ■