The Top 5 Most Important Things to Know If You're Launching an ETF: What we learned from the 2015 ETF Bootcamp Conference

By: Arro Financial Communications

New ETF issuers are entering a changed investing landscape. Once the underdog, ETFs have been slowly but surely growing in sheer number, assets under management, as well as into new asset classes. According to The Investment Company Institute, as of December 2014 there were 1,411 ETFs domiciled in the United States, boasting nearly $2 trillion in assets, and encompassing strategies ranging from core broad market index funds to commodities, bonds, emerging markets, and even active management.

For these reasons, at first blush the competitive ETF arena may appear somewhat daunting to new issuers looking to launch their first funds, which is why ETF Trends' series of panels at its 2015 ETF Bootcamp event was so welcome. The illuminating set of discussions, addressing everything from sourcing liquidity to transaction-free platforms, to regulatory issues and the shapes of ETFs to come, took place over the course of two days in New York City.

At Arro Financial Communications, we've done our best to glean the best nuggets of ETF wisdom from the surfeit of expertise that was on display at 2015's ETF Bootcamp. And so without further ado, here are The Top 5 Most Important Things to Know If You're Launching an ETF:

5) "No Transaction Fee" (NTF) ETFs make a real difference, both for RIAs and investors

As many panelists on the "Rise of the NTF Platform" noted, RIAs like to be able to demonstrate to their clients that they're saving them money, and investors like to know that they are not paying an extra cost simply to enter into an ETF investment. Brokerages can differentiate themselves by offering a suite of NTF ETFs to their clients, in the process generating substantially greater ETF sales. If an issuer can find a place for their ETF in a brokerage's NTF lineup, it can make a big difference, both to the issuer and the brokerage.

4) There is no set timeline when it comes to SEC applications for exemptive relief

The '40 Act allows for open end funds (Mutual Funds) and closed ended funds. ETFs inhabit something of a middle ground between these two categories, and as a result owe their existence to approved exemptive applications filed with the SEC. While the approval timeline has improved significantly over the last few years, and can be as short as 6 months for more conventional index ETFs, the process can often take much longer, and in rare cases, more-novel structures can be flat-out rejected by the SEC.

Even if a new application for exemptive relief is for a relatively simple structure, unforeseen events such as a blip on Wall Street or a single-day liquidity crisis elsewhere can put applications on hold for months, or indefinitely. Something as innocuous as a bad story in the press might prompt SEC action or hesitancy, delaying the approval and issuance of new ETFs.

3) An ETF does not sell itself

Although this may seem like an obvious point, many asset managers and new issuers often see it as a given that their new fund will simply gather assets once it is released and available on the exchange of their choosing. Unfortunately, this is rarely the case. New ETF issuers need to build a strong team and have a concerted branding, marketing, PR, and sales strategy in place before their new fund launches. While it is possible to tack on such strategies to an existing fund that has already launched, it can prove much more difficult to gain traction and mindshare with the newsworthy launch date already receding into the past.

2) Getting onto platforms can be a chicken-and-egg problem: RIA education may be the key

Gaining assets under management is the top priority for issuers of a new ETF, and one of the best ways to accomplish this is to get onto a wire house or robo-advisor platform, gaining access to the hundreds of thousands of investors they represent. There's just one problem: most platforms require a long track record, with substantial minimum AUM and liquidity requirements to boot. The challenge, then, becomes how to gain those assets under management.

One important way to accomplish this is by offering ample research material for RIAs. With robust explanatory whitepapers or investment cases, an RIA is far more likely to recommend a new ETF to a client if it fits their investment objectives. Such materials also can serve as excellent support documents for ETF salespeople as they make their rounds.

1) A Killer ETF concept is not enough (timing, timing, timing!)

HACK—The Cyber Security ETF—came up again and again throughout the conference. The fund was launched in late 2014 and—seemingly out of nowhere—has already drummed up more than $1 billion in assets under management, a rare feat that just 15% of all ETFs achieve. Panelists throughout the conference were quick to stress that HACK represents the exception, not the rule. But what hasn't been as prevalent in the headlines is HACK's direct competitor, CIBR, the First Trust Nasdaq CEA Cybersecurity ETF, which has garnered a comparatively paltry $91 million in AUM. Although $91 million is nothing to sneeze at in the ETF world, CIBR was launched about 8 months too late to ride the groundswell of fear and investor interest that followed the wave of hacking scandals at the end of 2014.

In other words, being first to a market niche can be helpful, even the key to success, but perfectly timing an ETF's release can be a tricky business indeed. With the benefit of hindsight it's easy to say that HACK's release timing was a tactical master stroke, but it also benefited substantially from another factor: luck.

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So there you have them: five of the most important things to know for issuers looking to launch a new ETF. Some of them may fall into the “conventional wisdom” category, while others may be new to most in the ETF space, but it’s safe to say that they’re all worth taking into consideration, especially if your firm is taking the plunge and launching a new fund.

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