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Money Matter$

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TD Ameritrade's Re-vamped Commission-Free ETF Lineup

by Adam Sommers

In November, TD Ameritrade announced that they will now offer nearly 300 Exchange-Traded Funds (ETFs) on their commission-free list, up from the approximately 100 introduced more than five years ago. This was thought to be welcome news.

However, of the 100 existing commission-free ETFs, only 16 are going to remain commission-free. This announcement caused me to research the pros and cons of the 300 ETFs, to determine which we'd like to use for our clients' portfolios—in addition to determining how we'd proceed with existing holdings that were now going to cost our clients to sell.

After some bad press about the 30-day window allotted for the change, TD Ameritrade decided to extend the commission-free period for the original 100 ETFs until mid-January.

You may have noticed that over the past two months we've been gradually transitioning your accounts to ETFs on the new list, at no cost. We've been hesitant to transition taxable accounts, as the rising market has generated substantial capital gains, but we are planning on completing the transition by mid-January.

TD Ameritrade decided they'd like to make some revenue off of the ETFs investors hold, and since they weren't getting commissions from the trades, they strong-armed some ETF sponsors to give them a cut of the funds' expense ratios. It is well known in our industry that Vanguard will not "pay-to-play," so unfortunately, Vanguard ETFs are no longer offered commission-free.

Lucky for us, many funds from iShares, State Street SPDRs, WisdomTree, PowerShares, ProShares, and First Trust can easily replace the Vanguard funds' performance and risk profile—at similarly low cost.

After much grumbling, and time spent analyzing, we've updated our investment models utilizing all commission-free funds (with the exceptions of our Socially Conscious/ Impact and Closed-End Fund strategies).

I'm particularly excited about the plethora of "smart-beta" - or alternative beta - ETFs that are now available commission-free. These funds are weighted and allocated based on factors such as volatility, value, quality, momentum, and dividends—rather than company size. Over the next few quarters, be sure to check out our ETF EXTRA section for highlights of our new favorite ETFs.

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2017 Returns

Dow Jones Industrial 30 Average: 25.3 %

S&P 500 U.S. Large Company Stock Index: 19.6 %

S&P Moderate Allocation Index (AOM): 10.1 %

SPDR Gold Index (GLD): 12.1 %

iShares Aggregate Bond Index (AGG): 3.5 %

SFM's "THE NAKED ALPHA FUND": 10.0 %

ETF EXTRA — iShares Global Minimum Volatility ETF — (ACWV)

From ETF.com: ACWV tracks an index of large- and mid-cap global stocks selected and weighted to create a low volatility portfolio subject to constraints, including sector exposure. Consistent with its low-volatility mandate, ACWV tilts toward stable sectors like utilities, telecom and consumer non-cyclical, while under-weighting technology. The fund overweights Japan and the rest of developed Asia, while limiting exposure to tumultuous European equities. It's a cheap fund to hold, with a low expense ratio and decent tracking and robust securities lending income. ACWV is on our Opportunities List.

ACWV's Notable Statistics

Dividend Yield:	2.04 %
Total Assets in the Fund:	$ 3.6 Bil.
Expense Ratio:	0.20 %
3-Year Avg. Annual Return:	8.94 %
Maximum Drop (last 3 yrs):	- 11.2 %

Model STOCK Portfolios

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
20%	DON	WisdomTree US Mid-Cap Dividend ETF	2.24%	14.0%	11.9%	0.38%
21%	XSLV	PowerShares Small-Cap Low Volatility ETF	1.86%	8.2%	15.2%	0.25%
20%	ACWV	iShares Global Minimum Volatility ETF	2.04%	18.5%	9.8%	0.20%
19%	XMLV	PowerShares Mid-Cap Low Volatility ETF	1.74%	13.3%	14.6%	0.25%
20%	MTUM	iShares USA Momentum Factor Stock ETF	1.25%	36.2%	18.7%	0.15%

INCOME-oriented portfolio **Average dividend yield: 2.0%**

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20%	DON	WisdomTree US Mid-Cap Dividend ETF	2.24%	14.0%	11.9%	0.38%
23%	XSLV	PowerShares Small-Cap Low Volatility ETF	1.86%	8.2%	15.2%	0.25%
20%	ACWV	iShares Global Minimum Volatility ETF	2.04%	18.5%	9.8%	0.20%
19%	QUAL	iShares U.S. Quality Factor ETF	2.07%	22.0%	13.4%	0.15%
18%	LGLV	SPDR U.S. Large Cap Low Volatility ETF	1.99%	16.1%	10.7%	0.12%

Model BOND Portfolios

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
17%	BASIX	BlackRock Strategic Income Fund	1.81%	4.5%	2.3%	0.92%
18%	FATRX	Frost Total Return Bond Fund	3.27%	4.5%	3.1%	0.76%
19%	BFRAX	BlackRock Floating Rate Income Fund	3.45%	3.1%	3.9%	1.02%
24%	PONDX	PIMCO Income Fund	5.03%	8.3%	6.5%	0.90%
22%	FLOT	iShares Floating Rate Bond ETF	1.46%	1.6%	1.1%	0.20%

INCOME-oriented portfolio **Average dividend yield: 3.9%**

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
27%	FATRX	Frost Total Return Bond Fund	3.27%	4.5%	3.1%	0.76%
30%	BFRAX	BlackRock Floating Rate Income Fund	3.45%	3.4%	3.9%	1.02%
43%	PONDX	PIMCO Income Fund	5.03%	8.3%	6.5%	0.90%

Model ALTERNATIVE Portfolios

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
21%	FPE	First Trust Preferred Stock ETF	5.39%	11.3%	8.8%	0.85%
19%	BLADX	BlackRock Managed Income Fund	2.77%	5.1%	4.6%	0.74%
22%	NPSAX	Nuveen Preferred Securities Fund	1.38%	10.5%	7.1%	1.04%
19%	GATEX	The Gateway Fund	1.01%	9.2%	5.9%	0.94%
19%	FIW	First Trust Water ETF	1.08%	21.8%	15.4%	0.57%

INCOME-oriented portfolio **Average dividend yield: 4.4%**

% Wt.	Symbol	Description	Div. Yield	1-year Return	3-year Return	Expense
23%	FPE	First Trust Preferred Stock ETF	5.39%	11.3%	8.8%	0.85%
19%	BLADX	BlackRock Managed Income Fund	2.77%	5.1%	4.6%	0.74%
23%	BAICX	BlackRock Multi-Asset Income Fund	3.58%	8.8%	4.5%	0.82%
17%	NRIAX	Nuveen Real Asset Income Fund	4.91%	12.2%	6.1%	1.17%
18%	IYLD	iShares Multi-Asset Income ETF	5.24%	11.9%	5.3%	0.59%