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Investor's Business Daily Will New ETF Market Encourage Sponsors?

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 Joanne Von Alroth

What will make a bigger difference in the number of people investing in exchange traded funds: introducing a new market exclusively for ETFs, or having brokers start telling clients about ETFs?

The Nasdaq Stock Market is pinning its hopes on the first option.

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Nasdaq will unveil its new ETF market designed specifically for ETFs and index-linked notes sometime this quarter. The American Stock Exchange and the NYSE have already established separate structures that support trading ETFs: They pay specialists to maintain liquid markets in the space.

Nasdaq is the largest U.S. electronic stock market, with 3,200 companies. In May it had 54.1% of ETF trading volume.

But it has only about 20 ETF listings. Amex has 333, while the Big Board counts nearly 200.

Incubator

Nasdaq's ETF market is expected to be an incubator for new ETFs. Sponsors can choose designated liquidity providers. Nasdaq will give DLPs no extra information or abilities, but will offer incentives for passing trades through the Nasdaq platform, says ETF Watch Editor Matt Hougan.

That will give the new ETFs "the liquidity and visibility to grow into mature, accepted products," Nasdaq Senior Vice President William O'Brien said.

It translates to more participation and increased competition in ETF trading, which should then bump up the efficiency of the listing and trading processes, Nasdaq spokesman Wayne Lee says. The result? More products coming to market.

More competition also should result in tighter spreads and lower trading costs, Lee says.

Skepticism

That might be true if Nasdaq's new market actually brings investors to the table, says Neal Frankle, president and portfolio manager of Wealth Resources Group. But simply building a new forum is no guarantee that investors will come.

"I don't see how it's going to make a difference," he said. "If you're looking at exotic ETFs such as currency, gold or oil, maybe. But if you're looking at a regular ETF, I don't buy it. Not unless there's a big change in how things are done." That would mean brokers informing clients about ETFs.

"The Wall Street firms don't make a lot of money on ETFs, and therefore lots of brokers don't tell their clients about them," said Frankle. "So clients don't know the option is out there. When clients start going to their brokers and (ask) why aren't you recommending these products, we might see that shift."

Figuring out which of the more than 500 available ETFs you want can be hard. About 25% of those were rolled out this year alone and some are finding it difficult to attract investors, Hougan says.

The new market will get attention, Frankle says, but he's waiting to see if it actually boosts ETF

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