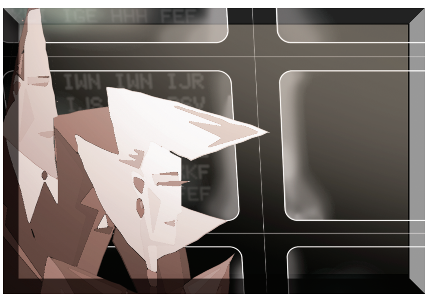
MUTUAL FUNDS

The Individual Investor's Guide to Exchange-Traded Funds

By Maria Crawford Scott and Jean Henrich

The universe of exchange-traded funds (ETFs) continues to expand, in both the number of funds available and total dollar assets attracted. Since last year, over 20 new exchange-traded funds have been added to the lineup. At the same time, assets have grown to $180 billion from last year's $117 billion (excluding HOLDRS).

Exchange-traded funds—passively managed portfolios of securities that track an index—offer an alternative to traditional index mutual funds. Similar to traditional mutual funds, exchange-traded funds consist of a portfolio of securities. However, they are exchange-listed and trade just like an individual stock, offering a trading flexibility that does not exist with traditional index funds.



The concept is not new. The first exchange-traded fund, the S&P 500-tracking SPDRs ("Spiders," ticker symbol SPY), was introduced in 1993 and was an immediate hit. Qubes (a name derived from the ticker QQQ), which track the Nasdaq 100 index, was introduced in 1999 and is by far the most actively traded of the funds today, with SPDRs coming in second. The newest ETF addition is the SPDR O-Strip (OOO), which tracks a new index covering S&P 500 companies traded in the over-the-counter market.

Currently, ETFs cover almost every equity index imaginable, including the Dow Jones, S&P, Russell, Morningstar and Morgan Stanley Capital International indexes. Fixed-income ETFs include shorter-, intermediate- and long-term Treasuries, corporate bonds, and even TIPS (inflation-protected Treasuries).

Exchange-traded funds are uniquely suited for individual investors, offering a low-cost and flexible way to ensure diversification in a portfolio. Because these funds are relatively new, AAII has put together a complete listing of all existing exchange-traded funds, along with a guide to how they work and where you can get more information on them.

The next segment, "What You Need to Know About Stock-Based Exchange-Traded Funds," describes ETFs in more detail. There are differences in the way certain exchange-traded funds are structured, and it is important to understand these differences when comparing funds. It is also important to understand differences in the underlying indexes that are being tracked. And, because ETFs are bought and sold like individual securities, an investor needs to understand how they trade.

Our listing of stock ETFs starting on page 16 categorizes each one by the type of index it tracks for easier comparison of similar alternatives. The listing includes recent performance and trading statistics, expense ratios, how the ETF is structured, and which index it tracks. HOLDRS, which technically are not really "exchange-traded funds," are included in the listings under the appropriate sector.

Fixed-income exchange-traded funds are listed and described in "What You Need to Know About Fixed-Income Exchange-Traded Funds" on pages 26 and 27.

A full listing of on-line resources is available in the Hot Links article on page 29.

What You Need to Know About Stock-Based Exchange-Traded Funds

Exchange-traded funds offer many of the advantages of a traditional index fund. Because they are composed of a basket of securities that track a particular index, ETFs provide diversification within the sector of the index that they track.

And because ETFs now cover almost every sector of the equity markets, they offer an easy and low-cost way to adjust the asset allocation of any portfolio.

ETFs also have several unique advantages compared to traditional index mutual funds.

ETF Advantages

Lower Costs at the Fund Level

Although index funds have low annual expense ratios, ETFs typically—but not always—have even lower ratios. Like their traditional index fund counterparts, they are passively managed and, therefore, do not have high management fees.

Unlike traditional index funds, ETF shares are traded on an exchange and, therefore, the fund does not have to buy and sell securities to accommodate shareholder purchases and redemptions. This also results in lower annual taxable distributions by the fund, as well as lower costs.

And although an investor must pay commissions to buy and sell shares, ETFs do not impose annual 12b-1 fees.

Trading Flexibility

Because they are exchange traded, ETFs have the same trading flexibility as an individual stock:

- They can be bought and sold at intraday market prices, unlike traditional mutual funds which are bought and sold at end-of-day prices;
- They can be purchased on margin;
- They can be sold short; and
- They can be traded using stop orders and limit orders, which allow investors to specify the price points at which they are willing to buy and sell shares.

ETF Risks

Exchange-traded funds carry many of the risks of traditional index mutual funds. In particular, they face market risk—the risk that the sector of the market that they are tracking may drop based on a variety of factors such as economic conditions and global events, investor sentiment and sector-specific factors. ETFs also face other risks.

Market Pricing

The market share price of an exchange-traded fund is determined by the forces of supply and demand, not the net asset value of the underlying securities. Therefore, investors may purchase shares at a premium or discount to the fund's net asset value.

For most exchange-traded funds, these differences are insignificant.

Tracking Error

Tracking error refers to the fact that an index fund's returns can sometimes fall short of (or exceed) the benchmark returns. Most index-based tradable funds track their benchmarks closely, as do low-cost traditional index funds.

Some portfolios may exhibit larger tracking errors than typical. Such discrepancies are not necessarily a drawback for investors, especially if limited alternatives exist for gaining exposure to a tiny segment of the stock market. Yet it's important to understand why these deviations exist.

Three primary factors account for tracking errors:

- ***Sampling:*** A fund may sample the universe tracked by the index rather than employ full replication.
- ***SEC- and IRS-mandated diversification requirements***: Investment company regulations state that a single company may account for no more than 25% of a fund's total assets. Thus, if a company makes up more than 25% of a market's index, that stock would be underweighted by the fund. To optimize a portfolio, the manager may increase weightings of other portfolio components or even go outside the index.
- ***Expenses:*** Even if a fund identically weights all the stocks in its benchmark, performance will be reduced by the expense ratio (i.e., net return equals gross return of index less expenses).

One other factor that can result in tracking errors for some ETFs is dividend payments. An exchange-traded fund typically pays out dividends received from the underlying stocks it holds on a quarterly basis, but the underlying stocks pay dividends throughout the quarter. Therefore, these funds may hold cash for various time periods throughout the quarter, even though the underlying benchmark index is not composed of cash. This is especially true with index ETFs that are organized as grantor trusts (i.e., HOLDRS), which cannot reinvest dividends and must hold them as cash.

The Indexes

Most ETFs are designed to replicate the holdings and correspond to the performance and yield of an underlying index.

Benchmarks tracked by exchange-traded funds fall into four general categories:

- ***Broad-based indexes:*** A wide cross-section of equities from a broad range of industries is included in these benchmarks. Examples are the S&P 500, Dow Jones U.S. Total Market, Russell 3000, and Fortune 500 (which tracks the 500 largest U.S. companies ranked by revenue). Style-specific "growth" and "value" options exist on certain benchmarks—and you can choose between small, mid-sized, large, or giant companies.
- ***Sector indexes:*** A specific industry or stock group, such as real estate or telecommunications, is the focus. Some benchmarks are relatively broad, such as consumer services, while many others are highly defined, such as Internet companies.
- ***International indexes:*** Global stock indexes, regional indexes and country-specific equity indexes are included.
- ***Bond indexes:*** These are relative newcomers. Currently six indexes are tracked, including three of the Lehman Treasury bond indexes, two that track corporate bonds, and one that tracks the Lehman TIPS index.

If you are interested in an ETF, you should make sure that you understand the underlying index it tracks. For example, although DIAMONDS and iShares Dow Jones U.S. Total Market Index fund both cover broad-based large-cap stocks, the performance of the underlying indexes will differ—the Dow Jones industrial average (tracked by DIAMONDS) covers only 30 stocks, while the Dow Jones U.S. Total Market Index is broader-based.

The Rydex ETF Trust covers the S&P 500 equal-weight index, an index that gives equal emphasis to all 500 stocks. In contrast, the S&P 500 index is based on market capitalizations, which means the stock performances of larger companies have a greater impact on the index; ETFs tracking the S&P 500 index will perform differently than those following the S&P 500 equal-weight index.

In other instances, the indexes are designed specifically for the fund. For example, the Select Sector SPDR Fund indexes, which cover the various sectors of the S&P 500, were designed so that, taken in combination, all eight of the Select Sector funds make up the S&P 500. These indexes are not the same as the more familiar S&P sector indexes that are published by Standard & Poor's, although they would likely perform very similarly.

Merrill Lynch's HOLDRS, which are portfolios of securities designed to cover various market sectors, do not track an index. Instead, the stocks are selected at the time the HOLDRS is introduced, based on criteria such as company size and liquidity (discussed more fully later). The Amex has developed indexes to follow the value of the various HOLDRS, but the HOLDRS came first and do not track the index. (The performance of the Amex indexes can be viewed at the Amex Web site, www.amex.com, in the indexes section of "Other Products.")

Information on the underlying indexes can be found in each ETF's prospectus, and in many instances at the fund sponsor's Web site (see page 29 for a list of sponsor Web sites).

Structure

There are three main structures for index ETFs:

- ***Open-ended index mutual fund:*** By far the most common structure, these are registered with the SEC as investment companies. Examples are iShares funds and Select Sector SPDRs.
- ***Unit investment trust:*** Also registered with the SEC as investment companies, but far less common. However, the first ETFs were structured this way and, thus, the most popular ETFs—Qubes, DIAMONDS and SPDRs, are structured as unit investment trusts.
- ***Exchange-traded grantor trust:*** The most similar to actually owning the underlying shares. These are not registered as investment companies and are not considered "exchange-traded funds" under strict definitions of the term. Examples include the HOLDRs funds.

What's the advantage of one structure over another?

Open-End and Unit Investment Trusts

The differences between ETFs structured as open-end mutual funds and unit investment trusts are relatively minor.

ETFs structured as open-end mutual funds can reinvest the dividends they receive from their underlying holdings in the fund when they receive them, whereas unit investment trusts cannot. The latter accumulate the dividends and reinvest them quarterly, resulting in a so-called "dividend drag" during rising markets. The drag is not that significant with an S&P 500 index fund because the benchmark currently yields only about 1%. It would be more noticeable with higher-yielding portfolios.

The open-end structure also allows a fund to use stock index futures to equitize its dividend stream, enabling it to be more fully invested in the underlying index.

In addition, stock loans can be made by open-end funds but not by unit investment trusts. The interest generated by such loans theoretically results in lower expenses. Stock lending is most significant for a fund that owns a lot of hard-to-borrow stock.

Grantor Trusts—HOLDRS

Exchange-traded funds structured as grantor trusts—Merrill Lynch's HOLDRS—operate quite a bit differ-

(continued on page 26)

Table 1. Stock-Based Exchange-Traded Funds

Name	Ticker Symbol	Inception Date	RiskGrade 1Yr Avg	Market Return 1 Yr (%)	NAV Return 1 Yr (%)	Index Return 1 Yr (%)	Tracking: Index – NAV Return (%)
Broad-Based/Large Cap							
DIAMONDS Trust Series I	DIA	1/20/1998	54	18.63	18.39	18.63	0.24
Fidelity NASDAQ Composite Index Tracking Stock[†]—NEW	ONEQ	9/25/2003	na	na	na	na	na
Fortune 500 Index Tracking Stock	FFF	10/10/2000	55	17.39	17.31	17.62	0.31
iShares Dow Jones Select Dividend Index Fund[††]—NEW	DVY	11/3/2003	na	na	na	25.28	na
iShares Dow Jones U.S. Total Market Index Fund	IYY	6/12/2000	58	20.36	20.11	20.38	0.27
iShares Morningstar Large Core Index Fund[††]—NEW	JKD	6/28/2004	na	na	na	17.51	na
iShares Morningstar Large Growth Index Fund[††]—NEW	JKE	6/28/2004	na	na	na	15.76	na
iShares NYSE 100 Index Fund[††]—NEW	NYC	3/30/2004	na	na	na	na	na
iShares NYSE Composite Index Fund[††]—NEW	NY	3/29/2004	na	na	na	na	na
iShares Russell 1000 Growth Index Fund	IWF	5/22/2000	63	17.87	17.65	17.88	0.23
iShares Russell 1000 Index Fund	IWB	5/15/2000	58	19.56	19.29	19.48	0.19
iShares Russell 1000 Value Index Fund	IWD	5/22/2000	57	20.99	20.88	21.13	0.25
iShares Russell 3000 Growth Index Fund	IWZ	7/24/2000	63	18.80	18.55	18.82	0.27
iShares Russell 3000 Index Fund	IWV	5/22/2000	60	20.47	20.21	20.46	0.25
iShares Russell 3000 Value Index Fund	IWW	7/24/2000	57	21.79	21.85	22.14	0.29
iShares S&P 100 Index Fund	OEF	10/23/2000	56	14.68	14.82	15.09	0.27
iShares S&P 500 Index Fund	IVV	5/15/2000	57	18.95	18.96	19.11	0.15
iShares S&P 500/BARRA Growth Index Fund	IVW	5/22/2000	60	15.83	15.79	16.02	0.23
iShares S&P 500/BARRA Value Index Fund	IVE	5/22/2000	61	22.20	22.00	22.26	0.26
iShares S&P 1500 Index Fund—NEW	ISI	1/20/2004	na	na	na	na	na
NASDAQ-100 Index Tracking Stock[†]	QQQ	3/10/1999	97	26.01	26.19	26.26	0.07
Power Shares XTF: Dynamic Market Portfolio	PWC	5/1/2003	69	24.80	24.65	25.95	1.30
Power Shares XTF: Dynamic OTC Portfolio	PWO	5/1/2003	106	24.45	24.41	25.36	0.95
Rydex ETF Trust	RSP	4/24/2003	65	28.05	28.18	28.77	0.59
SPDR O-Strip—NEW	OOO	9/15/2004	na	na	na	na	na
SPDR Trust Series I	SPY	1/29/1993	58	19.14	18.89	19.11	0.22
streetTRACKS Dow Jones U.S. Large Cap Growth Index Fund	ELG	9/25/2000	59	16.73	16.70	16.97	0.27
streetTRACKS Dow Jones U.S. Large Cap Value Index Fund	ELV	9/25/2000	55	15.34	15.54	15.85	0.31

† trades on NASDAQ-NM
†† trades on the New York Stock Exchange.

**technically, represents interest in portfolio of stocks held in a Vanguard mutual fund.*

na = data is not available, data is not applicable, or ETF is too ne

All ETFs trade on the American Stock Stock Exchange, unless otherwise noted.

***Ticker Symbol**: The symbol for the stock price at which trading occurs.*
***Inception Date**: The date when trading first occurred.*
RiskGrade 1 Yr Avg: A risk measure that relates the volatility of a particular portfolio to a portfolio of all stocks world wide during normal market conditions. The base worldwide stock portfolio has a RiskGrade of 100; a portfolio with a RiskGrade of 77 implies that it has a risk 77% as high as the average risk of the worldwide stock portfolio.
Market Return 1 Yr (%): The one-year total return (dividends reinvested) based on a fund's market price, through June 30, 2004, net of expenses.
NAV Return 1 Yr (%): The one-year total return (dividends reinvested) based on a fund's net asset value, through June 30, 2004.
Index Return 1 Yr (%): The one-year total return (dividends reinvested) of the underlying index tracked by the fund, through June 30, 2004.
Tracking: Index – NAV Return (%): The difference between the underlying index return and the fund NAV return. A negative sign indicates the fund's NAV return outperformed the index. This provides an indication of how closely the ETF portfolio tracked the index over the last year.

Price Close 9/14/2004 ($)	Price 52-Wk High ($)	Price 52-Wk Low ($)	Volume	Exp Ratio (%)	ETF Structure	Index Tracked
103.50	107.92	92.42	6,514,525.0	0.18	unit investment trust	Dow Jones Industrial Average
76.55	85.80	70.02	55,805.0	0.30	open-end mutual fund	NASDAQ Composite Index
80.41	82.91	71.00	10,405.0	0.24	open-end mutual fund	Fortune 500 Index
57.63	57.90	49.75	398,571.5	0.40	open-end mutual fund	Dow Jones Select Dividend Index
53.76	55.55	46.75	47,451.5	0.20	open-end mutual fund	Dow Jones U.S. Total Market Index
60.19	60.30	56.54	7,160.0	0.20	open-end mutual fund	Morningstar Large Core Index
57.22	59.65	54.05	3,177.8	0.25	open-end mutual fund	Morningstar Large Growth Index
60.74	61.54	57.20	2,347.8	0.25	open-end mutual fund	NYSE 100 Index
61.72	62.19	58.06	37,399.1	0.20	open-end mutual fund	NYSE Composite Index
46.20	49.11	42.29	411,775.5	0.20	open-end mutual fund	Russell 1000 Growth Index
60.63	62.67	53.10	162,813.0	0.15	open-end mutual fund	Russell 1000 Index
61.09	61.76	51.01	472,250.5	0.20	open-end mutual fund	Russell 1000 Value Index
37.23	39.62	34.20	32,802.5	0.25	open-end mutual fund	Russell 3000 Growth Index
64.10	66.38	56.01	309,456.0	0.20	open-end mutual fund	Russell 3000 Index
79.38	80.32	66.40	23,248.5	0.25	open-end mutual fund	Russell 3000 Value Index
55.03	57.60	49.83	141,500.0	0.20	open-end mutual fund	S&P 100 Index
113.74	117.00	99.26	545,134.5	0.09	open-end mutual fund	S&P 500 Index
55.32	58.01	50.64	189,406.5	0.18	open-end mutual fund	S&P 500/BARRA Growth Index
57.93	58.88	48.35	273,284.0	0.18	open-end mutual fund	S&P 500/BARRA Value Index
99.61	102.45	93.36	10,358.6	0.20	open-end mutual fund	S&P Composite 1500 Index
35.63	39.00	32.35	97,138,340.2	0.20	unit investment trust	NASDAQ 100 Index
36.59	37.27	30.20	35,769.0	0.60	open-end mutual fund	Dynamic Market Intellidex
38.03	43.85	34.29	9,940.0	0.60	open-end mutual fund	Dynamic OTC Intellidex
139.98	144.16	117.36	32,017.0	0.40	open-end mutual fund	S&P Equal-Weight Index
na	na	na	na	0.36	open-end mutual fund	S&P 500 O-Strip Index
113.66	116.97	99.25	40,708,112.0	0.10	unit investment trust	S&P 500 Index
45.83	48.67	42.35	11,283.5	0.23	open-end mutual fund	Dow Jones U.S. Large Cap Growth Index
129.25	130.74	110.40	9,768.5	0.23	open-end mutual fund	Dow Jones U.S. Large Cap Value Index

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Price Closing, 52-Week High and 52-Week Low($): The closing market price of the fund on September 14, 2004, and the high and low closing prices over the last year through September 14, 2004.
Volume: The average volume of shares traded for the fund for the last 200-day period through September 14, 2004. Lower volume typically leads to higher spreads between the bid and ask prices.
Expense Ratio (%): The expense ratio for each fund.
ETF Structure: Whether the fund is structured as an open-end mutual fund, a unit investor trust or a grantor trust (HOLDRS). For Vanguard ETFs, represents interest in a portfolio of stocks held in a Vanguard mutual fund.
Index Tracked: The underlying index that the fund is structured to track.

Sources: Market return, NAV return and index information on performance of the funds and indexes, expense ratios, fund structure and the index tracked are from American Stock Exchange, Barclays Global Investors, State Street Global Advisors and individual fund prospectuses. Closing price, 52-week high and low, and volume are from Yahoo! Finance. RiskGrades are from Riskgrades.com.

Table 1. Stock-Based Exchange-Traded Funds (con't)

Name	Ticker Symbol	Inception Date	RiskGrade 1Yr Avg	Market Return 1 Yr (%)	NAV Return 1 Yr (%)	Index Return 1 Yr (%)	Tracking: Index – NAV Return (%)
Broad-Based/Large Cap (con't)							
Vanguard Growth VIPERs—NEW	VUG	1/26/2004	na	na	na	na	na
Vanguard Large-Cap VIPERs—NEW	VV	1/27/2004	na	na	na	na	na
Vanguard Total Stock Market VIPERs	VTI	5/31/2001	58	21.27	21.06	21.17	0.11
Vanguard Value VIPERS—NEW	VTV	1/26/2004	na	na	na	na	na
Broad-Based/Mid Cap							
iShares Morningstar Mid Core Index Fund[††]—NEW	JKG	6/28/2004	na	na	na	30.63	na
iShares Morningstar Mid Growth Index Fund[††]—NEW	JKH	6/28/2004	na	na	na	21.43	na
iShares Morningstar Mid Value Index Fund[††]—NEW	JKI	6/28/2004	na	na	na	30.85	na
iShares Russell MidCap Growth Index Fund	IWP	7/17/2001	75	26.43	27.00	27.33	0.33
iShares Russell MidCap Index Fund	IWR	7/17/2001	64	28.89	29.11	29.39	0.28
iShares Russell MidCap Value Index Fund	IWS	7/17/2001	60	30.06	30.50	30.81	0.31
iShares S&P MidCap 400 Index Fund	IJH	5/22/2000	70	27.59	27.73	27.98	0.25
iShares S&P MidCap 400/BARRA Growth Index Fund	IJK	7/24/2000	71	22.24	22.33	22.62	0.29
iShares S&P MidCap 400/BARRA Value Index Fund	IJJ	7/24/2000	68	32.78	32.98	33.35	0.37
MidCap SPDR Trust Series I	MDY	5/4/1995	72	27.79	27.60	27.98	0.38
Vanguard Extended Market VIPERs	VXF	1/4/2002	73	29.57	29.75	29.53	–0.22
Vanguard Mid-Cap VIPERs—NEW	VO	1/26/2004	na	na	na	na	na
Broad-Based/Small Cap							
iShares Morningstar Small Core Index Fund[††]—NEW	JKJ	6/28/2004	na	na	na	35.70	na
iShares Morningstar Small Value Index Fund[††]—NEW	JKL	6/28/2004	na	na	na	35.14	na
iShares Russell 2000 Growth Index Fund	IWO	7/24/2000	110	32.40	31.32	31.55	0.23
iShares Russell 2000 Index Fund	IWM	5/22/2000	96	34.39	33.15	33.37	0.22
iShares Russell 2000 Value Index Fund	IWN	7/24/2000	86	34.59	34.88	35.17	0.29
iShares S&P SmallCap 600 Index Fund	IJR	5/22/2000	85	35.13	35.08	35.25	0.17
iShares Small Cap 600/BARRA Growth Index Fund	IJT	7/24/2000	83	34.58	34.22	34.47	0.25
iShares Small Cap 600/BARRA Value Index Fund	IJS	7/24/2000	84	36.08	35.74	35.99	0.25
streetTRACKS Dow Jones U.S. Small Cap Growth Index Fund	DSG	9/25/2000	83	30.75	31.19	31.57	0.38
streetTRACKS Dow Jones U.S. Small Cap Value Index Fund	DSV	9/25/2000	78	30.83	30.92	31.49	0.57
Vanguard Small-Cap Growth VIPERs—NEW	VBK	1/26/2004	na	na	na	na	na
Vanguard Small-Cap Value VIPERs—NEW	VBR	1/26/2004	na	na	na	na	na
Vanguard Small-Cap VIPERs—NEW	VB	1/26/2004	na	na	na	na	na
Sector/Basic Industries							
Select Sector SPDR Fund - Basic Industries	XLB	12/22/1998	83	30.94	30.96	na	na
Sector/Basic Materials							
iShares Dow Jones U.S. Basic Materials Sector Index Fund	IYM	6/12/2000	86	29.67	29.71	30.58	0.87
Vanguard Materials VIPERs—NEW	VAW	1/26/2004	na	na	na	na	na

†† trades on the New York Stock Exchange.

**technically, represents interest in portfolio of stocks held in a Vanguard mutual fund.*

na = data is not available, data is not applicable, or ETF is too ne

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Price Close 9/14/2004 ($)	Price 52-Wk High ($)	Price 52-Wk Low ($)	Volume	Exp Ratio (%)	ETF Structure	Index Tracked
47.91	50.87	44.92	25,014.6	0.15	open-end mutual fund*	MSCI U.S. Prime Market Growth Index
49.31	50.92	46.28	20,182.2	0.12	open-end mutual fund*	MSCI U.S. Prime Market 750 Index
109.13	112.79	94.84	163,314.5	0.15	open-end mutual fund*	Wilshire 5000 Total Market Index
50.92	51.25	46.85	27,198.1	0.15	open-end mutual fund*	MSCI U.S. Prime Market Value Index
59.07	59.60	55.00	5,737.8	0.25	open-end mutual fund	Morningstar Mid-Core Index
57.51	58.67	51.58	3,111.1	0.30	open-end mutual fund	Morningstar Mid-Growth Index
60.87	61.31	57.58	6,040.0	0.30	open-end mutual fund	Morningstar Mid-Value Index
74.58	80.33	65.33	75,568.5	0.25	open-end mutual fund	Russell MidCap Growth Index
69.96	72.10	58.55	92,947.5	0.20	open-end mutual fund	Russell MidCap Index
99.37	100.13	80.66	63,445.5	0.25	open-end mutual fund	Russell MidCap Value Index
118.62	124.00	101.61	98,971.5	0.20	open-end mutual fund	S&P MidCap 400 Index
121.07	128.05	107.97	49,372.5	0.25	open-end mutual fund	S&P MidCap 400/BARRA Growth Index
114.58	118.93	94.55	78,361.5	0.25	open-end mutual fund	S&P MidCap 400/BARRA Value Index
108.49	113.48	93.00	1,296,448.5	0.25	unit investment trust	S&P MidCap 400 Index
72.70	76.50	61.98	20,333.0	0.20	open-end mutual fund*	Wilshire 4500 Completion Index
50.09	51.47	46.29	4,647.1	0.18	open-end mutual fund*	MSCI U.S. Mid Cap 450 Index
59.86	60.26	54.52	3,155.6	0.25	open-end mutual fund	Morningstar Small Core Index
60.86	61.45	56.62	4,004.4	0.30	open-end mutual fund	Morningstar Small Value Index
58.75	65.00	51.75	824,852.5	0.25	open-end mutual fund	Russell 2000 Growth Index
114.10	121.15	95.76	5,921,411.5	0.20	open-end mutual fund	Russell 2000 Index
171.21	175.59	137.01	239,251.5	0.25	open-end mutual fund	Russell 2000 Value Index
143.83	147.30	115.32	263,933.0	0.20	open-end mutual fund	S&P SmallCap 600 Index
94.35	97.82	77.32	73,512.0	0.25	open-end mutual fund	Small Cap 600/BARRA Growth Index
108.83	109.90	85.06	89,885.0	0.25	open-end mutual fund	Small Cap 600/BARRA Value Index
67.42	71.48	58.25	9,908.0	0.29	open-end mutual fund	Dow Jones U.S. Small Cap Growth Index
167.97	177.35	140.80	4,830.0	0.29	open-end mutual fund	Dow Jones U.S. Small Cap Value Index
46.79	51.40	42.00	18,568.8	0.22	open-end mutual fund*	MSCI U.S. Small Cap Growth Index
52.08	52.49	46.23	5,278.3	0.22	open-end mutual fund*	MSCI U.S. Small Cap Value Index
49.53	51.80	45.25	19,821.7	0.18	open-end mutual fund*	MSCI U.S. Small Cap 1750 Index
26.73	27.34	21.70	1,060,105.5	0.28	open-end mutual fund	Basic Industries Select Sector Index
45.26	46.50	36.96	111,913.5	0.60	open-end mutual fund	Dow Jones U.S. Basic Materials Sector Index
52.55	53.60	45.80	4,984.1	0.28	open-end mutual fund*	MSCI U.S. Investable Market Material Index

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[Continued on next page]

Table 1. Stock-Based Exchange-Traded Funds (con't)

Name	Ticker Symbol	Inception Date	RiskGrade 1Yr Avg	Market Return 1 Yr (%)	NAV Return 1 Yr (%)	Index Return 1 Yr (%)	Tracking: Index – NAV Return (%)
Sector/Consumer							
iShares Dow Jones U.S. Consumer Cyclical Sector Index Fund	IYC	6/12/2000	67	14.81	14.83	15.51	0.68
iShares Dow Jones U.S. Consumer Non-Cyclical Sector Index Fund	IYK	6/12/2000	47	21.64	21.54	22.27	0.73
Merrill Lynch Retail HOLDRS	RTH	5/2/2001	76	na	na	na	na
Select Sector SPDR Fund - Consumer Discretionary	XLY	12/22/1998	68	17.22	17.42	na	na
Select Sector SPDR Fund - Consumer Staples	XLP	12/22/1998	46	15.64	15.83	na	na
Vangaurd Consumer Discretionary VIPERs—NEW	VCR	1/26/2004	na	na	na	na	na
Vanguard Consumer Staples VIPERs—NEW	VDC	1/26/2004	na	na	na	na	na
Sector/Energy							
iShares Dow Jones U.S. Energy Sector Index Fund	IYE	6/12/2000	77	32.12	32.33	32.08	–0.25
Merrill Lynch Market Oil Service HOLDRS	OIH	2/6/2001	119	na	na	na	na
Select Sector SPDR Fund - Energy Select Sector	XLE	12/22/1998	77	32.13	32.76	na	na
Sector/Financial							
iShares Dow Jones U.S. Financial Sector Index Fund	IYF	5/22/2000	61	20.01	19.92	20.66	0.74
iShares Dow Jones U.S. Financial Services Sector Index Fund	IYG	6/12/2000	67	18.02	18.05	18.76	0.71
Merrill Lynch Regional Bank HOLDRS	RKH	6/26/2000	64	na	na	na	na
Select Sector SPDR Fund - Financial	XLF	12/22/1998	63	18.17	18.27	na	na
Vanguard Financials VIPERs—NEW	VFH	1/26/2004	na	na	na	na	na
Sector/Health							
iShares Dow Jones U.S. Healthcare Sector Index Fund	IYH	6/12/2000	65	8.75	8.74	9.40	0.66
Merrill Lynch Pharmaceutical HOLDRS	PPH	2/1/2000	69	na	na	na	na
Select Sector SPDR Fund - Health Care	XLV	12/22/1998	62	5.06	5.28	na	na
Vanguard Health Care VIPERs—NEW	VHT	1/26/2004	na	na	na	na	na
Sector/Industrial							
iShares Dow Jones U.S. Industrial Sector Index Fund	IYJ	6/12/2000	69	29.89	30.02	30.38	0.36
Select Sector SPDR Fund - Industrial	XLI	12/22/1998	65	29.10	29.36	na	na
Sector/Natural Resources							
iShares Goldman Sachs Natural Resources Index Fund	IGE	10/22/2001	73	31.04	30.99	31.48	0.49
Sector/Real Estate							
iShares Cohen & Steers Realty Majors Index Fund	ICF	1/29/2001	77	28.57	28.27	28.96	0.69
iShares Dow Jones U.S. Real Estate Index Fund	IYR	6/12/2000	76	26.12	25.92	26.80	0.88
streetTRACKS Wilshire REIT Index Fund	RWR	4/23/2001	73	26.91	26.70	27.23	0.53
Sector/Technology							
iShares Dow Jones U.S. Technology Sector Index Fund	IYW	5/15/2000	106	24.84	24.70	25.43	0.73
iShares Goldman Sachs Network Index Fund	IGN	7/10/2001	161	61.96	61.10	62.45	1.35

**technically, represents interest in portfolio of stocks held in a Vanguard mutual fund.*

na = data is not available, data is not applicable, or ETF is too ne

All ETFs trade on the American Stock Stock Exchange, unless otherwise noted.

Price Close 9/14/2004 ($)	Price 52-Wk High ($)	Price 52-Wk Low ($)	Volume	Exp Ratio (%)	ETF Structure	Index Tracked
54.47	58.20	49.50	47,581.5	0.60	open-end mutual fund	Dow Jones U.S. Consumer Cyclical Sector Index
50.05	52.85	43.45	70,409.0	0.60	open-end mutual fund	Dow Jones U.S. Consumer Non-Cyclical Sector Index
91.59	96.15	83.80	1,758,069.0	0.08	grantor trust	no independent index
31.39	32.58	27.38	250,386.0	0.28	open-end mutual fund	Consumer Discretionary Select Sector Index
22.42	23.67	20.20	377,436.0	0.28	open-end mutual fund	Consumer Staples Select Sector Index
48.60	50.93	44.73	4,128.7	0.28	open-end mutual fund*	MSCI U.S. Investable Market Consumer Discretionary In
52.56	54.65	50.55	3,605.1	0.28	open-end mutual fund*	MSCI U.S. Investable Market Consumer Staples Index
59.79	60.10	42.40	75,033.0	0.60	open-end mutual fund	Dow Jones U.S. Energy Sector Index
77.19	77.75	53.67	1,833,425.5	0.08	grantor trust	no independent index
33.50	33.61	23.75	1,335,746.0	0.28	open-end mutual fund	Energy Select Sector Index
92.17	95.72	78.56	24,881.0	0.60	open-end mutual fund	Dow Jones U.S. Financial Sector Index
106.54	110.79	91.81	9,093.5	0.60	open-end mutual fund	Dow Jones U.S. Financial Services Sector Index
134.75	140.26	112.40	329,047.5	0.08	grantor trust	no independent index
29.28	30.61	25.08	3,224,323.0	0.28	open-end mutual fund	Financial Select Sector Index
51.22	52.26	46.21	5,751.0	0.28	open-end mutual fund*	MSCI U.S. Investable Market Financials Index
57.79	60.90	51.74	92,921.0	0.60	open-end mutual fund	Dow Jones U.S. Healthcare Sector Index
76.55	84.25	71.68	599,941.0	0.08	grantor trust	no independent index
29.98	31.98	27.31	333,839.5	0.28	open-end mutual fund	Health Care Select Sector Index
49.01	51.81	45.23	8,351.0	0.28	open-end mutual fund*	MSCI U.S. Investable Market Health Care Index
51.54	52.40	42.46	47,101.0	0.60	open-end mutual fund	Dow Jones U.S. Industrial Sector Index
28.46	28.78	23.05	634,683.5	0.28	open-end mutual fund	Industrial Select Sector Index
119.54	119.96	89.59	19,324.0	0.50	open-end mutual fund	Goldman Sachs Natural Resources Index
118.00	122.95	94.57	108,093.5	0.35	open-end mutual fund	Cohen & Steers Realty Majors Index
107.50	111.85	87.50	308,890.0	0.60	open-end mutual fund	Dow Jones U.S. Real Estate Index
163.67	170.71	134.50	20,975.0	0.28	open-end mutual fund	Wilshire REIT Index
43.59	53.54	39.70	66,213.0	0.60	open-end mutual fund	Dow Jones U.S. Technology Sector Index
27.97	36.46	23.35	185,943.0	0.50	open-end mutual fund	Goldman Sachs Network Index

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Table 1. Stock-Based Exchange-Traded Funds (con't)

Name	Ticker Symbol	Inception Date	RiskGrade 1Yr Avg	Market Return 1 Yr (%)	NAV Return 1 Yr (%)	Index Return 1 Yr (%)	Tracking: Index – NAV Return (%)
Sector/Technology (con't)							
iShares Goldman Sachs Semiconductor Index Fund	IGW	7/10/2001	153	35.63	35.37	35.97	0.60
iShares Goldman Sachs Software Index Fund	IGV	7/10/2001	113	22.28	22.47	22.98	0.51
iShares Goldman Sachs Technology Index Fund	IGM	3/13/2001	107	27.37	26.99	27.49	0.50
iShares NASDAQ Biotechnology Index Fund†	IBB	2/5/2001	126	12.25	12.18	12.97	0.79
Merrill Lynch B2B Internet HOLDRS	BHH	2/24/2000	155	na	na	na	na
Merrill Lynch Biotech HOLDRS	BBH	11/23/1999	105	na	na	na	na
Merrill Lynch Broadband HOLDRS	BDH	4/6/2000	153	na	na	na	na
Merrill Lynch Internet Architecture HOLDRS	IAH	2/25/2000	96	na	na	na	na
Merrill Lynch Internet HOLDRS	HHH	9/24/1999	143	na	na	na	na
Merrill Lynch Internet Infrastructure HOLDRS	IIH	2/25/2000	180	na	na	na	na
Merrill Lynch Semiconductor HOLDRS	SMH	5/26/2000	152	na	na	na	na
Merrill Lynch Software HOLDRS	SWH	9/27/2000	110	na	na	na	na
Select Sector SPDR Fund - Technology	XLK	12/22/1998	94	21.27	21.26	na	na
streetTRACKS Morgan Stanley Technology Index Fund	MTK	9/25/2000	109	33.85	34.11	34.81	0.70
Vanguard Information Technology VIPERs—NEW	VGT	1/26/2004	na	na	na	na	na
Sector/Telecommunications							
iShares Dow Jones U.S. Telecommunications Sector Index Fund	IYZ	5/22/2000	77	5.30	5.56	6.78	1.22
Merrill Lynch Telecom HOLDRS	TTH	2/2/2000	79	na	na	na	na
Merrill Lynch Wireless HOLDRS	WMH	11/1/2000	96	na	na	na	na
Sector/Transportation							
iShares Dow Jones Transportation Average Index Fund—NEW	IYT	10/6/2003	na	na	na	34.38	na
Sector/Utilities							
iShares Dow Jones U.S. Utilities Sector Index Fund	IDU	6/12/2000	55	12.27	12.25	12.94	0.69
Merrill Lynch Utilities HOLDRS	UTH	6/26/2000	54	na	na	na	na
Select Sector SPDR Fund - Utilities	XLU	12/22/1998	57	10.14	10.19	na	na
Vanguard Utilities VIPERs—NEW	VPU	1/26/2004	na	na	na	na	na
Foreign/Global							
iShares S&P Global 100 Index Fund††	IOO	12/5/2000	66	20.62	20.26	20.96	0.70
Merrill Lynch Market 2000+ HOLDRS	MKH	8/30/2000	57	na	na	na	na
streetTRACKS Dow Jones Global Titans Index Fund	DGT	9/25/2000	57	15.55	15.47	15.85	0.38
Foreign/Regional							
BLDRS Asia 50 ADR Index Fund	ADRA	11/8/2002	106	na	na	na	na
BLDRS Developed Markets 100 ADR Index Fund	ADRD	11/8/2002	140	na	na	na	na
BLDRS Emerging Markets 50 ADR Index Fund	ADRE	11/8/2002	160	na	na	na	na
BLDRS Europe 100 ADR Index Fund	ADRU	11/8/2002	177	na	na	na	na
iShares MSCI - EAFE	EFA	8/14/2001	74	33.16	32.14	32.37	0.23
iShares MSCI - EMU Index Fund	EZU	7/25/2000	82	29.46	28.19	28.94	0.75

† trades on the NASDAQ-NM
†† trades on the New York Stock Exchange.

**technically, represents interest in portfolio of stocks held in a Vanguard mutual fund.*

na = data is not available, data is not applicable, or ETF is too n

All ETFs trade on the American Stock Stock Exchange, unless otherwise noted.

Price Close 9/14/2004 ($)	Price 52-Wk High ($)	Price 52-Wk Low ($)	Volume	Exp Ratio (%)	ETF Structure	Index Tracked
49.12	70.67	43.70	115,443.0	0.50	open-end mutual fund	Goldman Sachs Semiconductor Index
34.62	41.10	31.08	105,426.5	0.50	open-end mutual fund	Goldman Sachs Software Index
41.74	50.80	37.63	52,490.0	0.50	open-end mutual fund	Goldman Sachs Technology Index
70.90	85.00	61.22	746,631.5	0.50	open-end mutual fund	NASDAQ Biotechnology Index
2.26	3.46	1.97	73,244.5	0.08	grantor trust	no independent index
145.40	160.25	122.80	904,980.0	0.08	grantor trust	no independent index
15.75	17.40	11.40	263,467.0	0.08	grantor trust	no independent index
33.03	40.16	29.70	45,503.0	0.08	grantor trust	no independent index
60.57	64.65	41.96	298,703.0	0.08	grantor trust	no independent index
3.43	4.61	2.86	68,773.0	0.08	grantor trust	no independent index
31.07	45.78	27.78	17,860,880.5	0.08	grantor trust	no independent index
34.51	40.20	31.16	391,810.5	0.08	grantor trust	no independent index
19.40	22.24	17.86	573,453.5	0.28	open-end mutual fund	Technology Select Sector Index
44.78	52.28	39.31	6,897.0	0.53	open-end mutual fund	Morgan Stanley Technology Index
42.40	49.24	38.80	7,122.9	0.28	open-end mutual fund*	MSCI U.S. Investable Market Info Tech In
23.12	23.15	18.80	163,867.5	0.60	open-end mutual fund	Dow Jones U.S. Telecom Sector Index
29.30	29.48	24.01	201,550.5	0.08	grantor trust	no independent index
58.65	59.81	40.61	24,516.0	0.08	grantor trust	no independent index
58.16	58.33	49.16	27,441.2	0.60	open-end mutual fund	Dow Jones Transportation Average Index
61.63	62.35	52.51	53,937.5	0.60	open-end mutual fund	Dow Jones U.S. Utilities Sector Index
85.15	86.31	71.23	341,586.5	0.08	grantor trust	no independent index
25.02	25.49	21.25	713,664.5	0.28	open-end mutual fund	Utilities Select Sector Index
53.09	53.65	46.65	4,626.1	0.28	open-end mutual fund*	MSCI U.S. Investable Market Utilities Index
57.43	60.44	50.40	18,468.0	0.40	open-end mutual fund	S&P Global 100 Index
53.17	56.60	48.40	3,882.5	0.08	grantor trust	no independent index
61.66	63.77	54.90	12,481.0	0.54	open-end mutual fund	Dow Jones Global Titans Index
64.51	71.35	57.60	1,835.0	0.30	unit investment trust	BNY Asia 50 ADR Index
59.65	65.00	50.00	1,356.0	0.30	unit investment trust	BNY Developed Markets 100 ADR Index
71.55	79.00	55.00	3,533.0	0.30	unit investment trust	BNY Emerging Markets 50 ADR Index
59.90	65.29	50.53	1,091.0	0.30	unit investment trust	BNY Europe 100 ADR Index
141.55	145.24	116.82	538,163.5	0.35	open-end mutual fund	MSCI EAFE Index
62.19	65.68	50.01	64,957.5	0.59	open-end mutual fund	MSCI EMU Index (European Monetary Union)

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Table 1. Stock-Based Exchange-Traded Funds (con't)

Name	Ticker Symbol	Inception Date	RiskGrade 1Yr Avg	Market Return 1 Yr (%)	NAV Return 1 Yr (%)	Index Return 1 Yr (%)	Tracking: Index – NAV Return (%)
Foreign/Regional (con't)							
iShares MSCI Pacific Ex-Japan Index Fund	EPP	10/25/2001	85	26.84	27.38	27.37	–0.01
iShares S&P Europe 350	IEV	7/25/2000	77	28.43	27.53	28.47	0.94
iShares S&P Latin America 40 Index Fund	ILF	10/25/2001	108	32.42	33.70	35.91	2.21
iShares MSCI Emerging Index Fund—NEW	EEM	4/7/2003	100	35.65	35.17	33.14	–2.03
Merrill Lynch Europe 2001 HOLDRS	EKH	1/18/2001	87	na	na	na	na
streetTRACKS DJ Euro STOXX 50††	FEZ	10/15/2002	89	27.60	25.96	25.96	0.00
streetTRACKS DJ STOXX 50††	FEU	10/15/2002	76	23.86	21.86	22.13	0.27
Foreign/Country							
iShares MSCI - Australia	EWA	3/12/1996	86	24.55	24.72	24.28	–0.44
iShares MSCI - Austria	EWO	3/12/1996	87	60.59	59.00	59.28	0.28
iShares MSCI - Belgium	EWK	3/12/1996	88	42.35	40.27	38.09	–2.18
iShares MSCI - Brazil	EWZ	7/10/2000	160	38.71	42.23	43.50	1.27
iShares MSCI - Canada	EWC	3/12/1996	78	23.81	24.59	25.28	0.69
iShares MSCI - France	EWQ	3/12/1996	84	30.80	29.45	30.05	0.60
iShares MSCI - Germany	EWG	3/12/1996	100	35.57	34.27	34.51	0.24
iShares MSCI - Hong Kong	EWH	3/12/1996	118	34.65	34.81	35.77	0.96
iShares MSCI - Italy	EWI	3/12/1996	83	23.88	25.13	25.17	0.04
iShares MSCI - Japan	EWJ	3/12/1996	121	46.24	44.90	46.22	1.32
iShares MSCI - Malaysia (Free)	EWM	3/12/1996	102	17.18	18.44	19.96	1.52
iShares MSCI - Mexico (Free)	EWW	3/12/1996	104	35.59	35.06	31.93	–3.13
iShares MSCI - Netherlands	EWN	3/12/1996	90	27.95	27.37	25.11	–2.26
iShares MSCI - Singapore (Free)	EWS	3/12/1996	115	31.30	31.20	31.01	–0.19
iShares MSCI - South Africa	EZA	2/3/2003	106	42.07	41.43	42.55	1.12
iShares MSCI - South Korea	EWY	5/9/2000	145	22.44	21.98	26.78	4.80
iShares MSCI - Spain	EWP	3/12/1996	91	27.23	27.04	27.82	0.78
iShares MSCI - Sweden	EWD	3/12/1996	114	53.31	51.22	52.07	0.85
iShares MSCI - Switzerland	EWL	3/12/1996	90	30.48	29.74	28.31	–1.43
iShares MSCI - Taiwan	EWT	6/20/2000	158	17.67	21.50	22.91	1.41
iShares MSCI - United Kingdom	EWU	3/12/1996	80	25.62	25.19	26.36	1.17
iShares S&P TOPIX 150 Index Fund	ITF	10/23/2001	115	43.09	42.11	43.55	1.44
Foreign/Sector							
iShares S&P Global Energy Index Fund	IXC	11/12/2001	77	30.45	29.81	29.97	0.16
iShares S&P Global Financial Index Fund	IXG	11/12/2001	66	23.82	23.87	24.79	0.92
iShares S&P Global Healthcare Index Fund	IXJ	11/13/2001	72	8.67	8.77	9.60	0.83
iShares S&P Global Info Technology Index Fund	IXN	11/12/2001	105	26.29	26.40	27.25	0.85
iShares S&P Global Telecommunications Index Fund	IXP	11/12/2001	78	12.31	12.89	13.24	0.35

†† trades on the New York Stock Exchange.

**technically, represents interest in portfolio of stocks held in a Vanguard mutual fund.*

na = data is not available, data is not applicable, or ETF is too n

All ETFs trade on the American Stock Stock Exchange, unless otherwise noted.

Price Close 9/14/2004 ($)	Price 52-Wk High ($)	Price 52-Wk Low ($)	Volume	Exp Ratio (%)	ETF Structure	Index Tracked
77.75	82.00	63.65	68,417.5	0.50	open-end mutual fund	MSCI Pacific Ex-Japan Index
66.34	69.20	54.11	74,680.0	0.60	open-end mutual fund	S&P Europe 350
63.99	65.00	48.95	18,319.5	0.50	open-end mutual fund	S&P Latin America 40 Index
167.52	182.40	135.40	209,649.0	0.75	open-end mutual fund	MSCI Emerging Index
56.30	66.08	49.80	2,616.5	0.08	grantor trust	no independent index
34.29	37.46	27.90	66,230.5	0.35	open-end mutual fund	Dow Jones EURO STOXX 50 Index
33.36	35.58	27.99	12,771.0	0.35	open-end mutual fund	Dow Jones STOXX 50 Index
13.88	14.45	11.50	125,701.5	0.59	open-end mutual fund	MSCI Australia Index
17.13	17.83	10.80	69,131.5	0.59	open-end mutual fund	MSCI Austria Index
15.56	15.58	11.68	28,605.0	0.59	open-end mutual fund	MSCI Belgium Index
17.20	18.81	12.13	668,596.0	0.74	open-end mutual fund	MSCI Brazil Index
14.83	15.44	12.35	154,082.5	0.59	open-end mutual fund	MSCI Canada Index
21.14	21.79	17.03	25,399.0	0.59	open-end mutual fund	MSCI France Index
15.69	17.25	12.36	129,644.5	0.59	open-end mutual fund	MSCI Germany Index
11.33	11.76	8.71	617,780.0	0.59	open-end mutual fund	MSCI Hong Kong Index
20.90	22.90	17.27	18,151.0	0.59	open-end mutual fund	MSCI Italy Index
10.04	11.20	8.55	6,553,994.0	0.59	open-end mutual fund	MSCI Japan Index
6.90	7.41	5.85	417,750.5	0.59	open-end mutual fund	MSCI Malaysia Index
19.95	21.40	15.00	221,761.5	0.59	open-end mutual fund	MSCI Mexico Index
16.38	17.50	14.01	12,948.5	0.59	open-end mutual fund	MSCI Netherlands Index
6.92	7.40	5.32	182,054.0	0.59	open-end mutual fund	MSCI Singapore Index
61.85	62.29	46.40	15,540.5	0.74	open-end mutual fund	MSCI South Africa Index
25.68	30.10	21.15	268,567.0	0.74	open-end mutual fund	MSCI South Korea Index
28.65	30.48	22.35	21,415.0	0.59	open-end mutual fund	MSCI Spain Index
17.57	18.08	12.86	28,484.0	0.59	open-end mutual fund	MSCI Sweden Index
15.07	16.03	12.58	21,622.0	0.59	open-end mutual fund	MSCI Switzerland Index
10.90	13.43	9.51	567,358.0	0.74	open-end mutual fund	MSCI Taiwan Index
16.13	16.59	13.33	206,225.0	0.59	open-end mutual fund	MSCI United Kingdom Index
86.40	96.59	74.95	10,384.5	0.50	open-end mutual fund	S&P/Tokyo Stock Price 150 Index
67.35	67.50	49.75	46,622.5	0.65	open-end mutual fund	S&P Global Energy Sector Index
60.55	62.74	51.38	6,396.0	0.65	open-end mutual fund	S&P Global Financials Sector Index
47.59	50.99	42.53	23,357.0	0.65	open-end mutual fund	S&P Global Healthcare Sector Index
46.79	55.97	42.50	4,836.5	0.65	open-end mutual fund	S&P Global Info Technology Sector Index
46.47	49.59	39.35	5,094.0	0.65	open-end mutual fund	S&P Global Telecommunications Sector Index

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(continued from page 15)
ently than ETFs structured as investment companies. Many information providers do not define HOLDRS as "exchange-traded funds" but rather list them separately.

HOLDRS do provide diversified exposure to a particular industry, sector or group. However, HOLDRS allow you to keep ownership benefits related to the underlying stocks: the right to vote shares, to receive dividends and to sell the stock when you want to.

HOLDRS also do not track an independent index. When a new HOLDR is developed, an industry, sector or group of securities is identified and the underlying stocks to be included in the HOLDR are then selected for inclusion on the basis of objective criteria—such as market capitalization, liquidity, price-earnings ratio or other measures. The selected stocks may be weighted equally or on a modified market-cap basis.

However, once determined, stock composition does not change unless due to a corporate event such as a merger or spin-off. Because the relative weightings of the stocks are a function of market prices, the relative weightings within the HOLDRS will change substantially over time.

The other unique feature of HOLDRS is that you can take delivery of the underlying securities if you choose, by canceling your HOLDR. To cancel, you simply instruct your broker to deliver your HOLDRS to the HOLDRS trustee and pay a cancellation fee. The trustee will transmit ownership of the underlying shares to your account. Canceling a HOLDR is not a taxable event.

Trading ETFs

Because ETFs trade like stocks, you need to know their trading characteristics.

Pricing Considerations

Exchange-traded funds have pricing symbols for three different variables:

- ***A stock price***—the price at which trading occurs.
- ***An official closing net asset value***—with a few exceptions, this quantity is computed as of 4:00 p.m. Eastern time each business day.
- ***An estimated intraday net as-***

What You Need to Know Ab
Fixed-Income Exchange-Trad

Fixed-income exchange-traded funds are slowly catching on. But they have a long way to go—net assets in bond exchange-traded funds totaled $7 billion at the end of July, compared to $172 billion in equity funds.

Currently six funds track bond indexes, all of them iShares funds. The newest fund features TIPS—Treasury Inflation-Protected Securities—and tracks the Lehman TIPS Index. Three other funds span short-, intermediate- and long-term Lehman Treasury indexes, and two track corporate bond indexes.

Bond ETFs work like their stock counterparts. Like equity ETFs, bond ETF share prices may deviate from their net asset values, producing tiny premiums or discounts throughout the trading day. Each fund has both a trading symbol and an IOPV (indicative optimized portfolio value) ticker.

The IOPV approximates the fund's net asset value and is updated every 15 seconds throughout the trading day. By comparing the IOPV and real-time stock quote for a bond ETF, you can

Table 1. Fixed-Income Exchange-Traded Funds

Name	Ticker Symbol	Inception Date	Market Return 1 Yr (%)	NAV Return 1 Yr (%)
iShares GS $ InvesTop Corporate Bond Fund	LQD	7/22/2002	–1.23	–1.23
iShares Lehman 1-3 Year Treasury Bond Fund	SHY	7/22/2002	0.39	0.35
iShares Lehman 7-10 Year Treasury Bond Fund	IEF	7/22/2002	–2.46	–2.52
iShares Lehman 20+ Year Treasury Bond Fund	TLT	7/22/2002	–4.89	–4.92
iShares Lehman Aggregate Bond Fund—NEW	AGG	9/22/2003	na	na
iShares Lehman TIPS Bond Fund††—NEW	TIP	12/4/2003	na	na

†† trades on the New York Stock Exchange.

Source: Barclays Global Investors and Yahoo! Finance.

***Note**: All six funds are structured as open-end mutual funds.*

***Ticker Symbol**:* The symbol for the stock price at which trading occurs.

***Inception Date**:* The date when trading first occurred.

Market Return 1 Yr (%): The one-year total return (dividends reinvested) based on a fund's mark June 30, 2004, net of expenses.

NAV Return 1 Yr (%): The one-year total return (dividends reinvested) based on a fund's net ass June 30, 2004.

Index Return 1 Yr (%): The one-year total return (dividends reinvested) of the underlying index fund, through June 30, 2004.

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approximate any discounts or premiums that might occur.

You can also determine a bond ETF's end-of-day discount or premium based upon its net asset value (computed daily at the market close) and last traded price. This information can be found most readily at the Web site for iShares. Keep in mind, however, that bond quote and price reporting is less well-developed than stock quote and price reporting, making the IOPV and net asset value less reliable for bond ETFs. Fortunately, bond quotes and price data are improving.

As with bonds themselves, the prices of bond ETFs vary inversely with the level of interest rates—i.e., rising rates lead to falling fixed-income security prices and vice versa. Like most bond funds, fixed-income ETFs do not pay a fixed rate of return and do not guarantee that your investment will be recouped when you cash out. Bond ETFs pay monthly dividends in cash. Individuals interested in reinvesting their dividends should contact their brokers for further information, including any fees.

Bond ETFs offer benefits similar to those of stock ETFs, such as low cost, diversification, the ability to trade shares throughout the day, and the ability to short a portfolio.

Four bond ETFs feature rock-bottom 0.15% expense ratios—a major plus for fixed-income portfolios, particularly during times of low returns. The two newer bond ETFs have 0.20% expense ratios. Tax efficiency, an advantage for stock ETFs, would not be a relevant consideration with bond ETFs because of their income orientation. Like Treasury securities themselves, Treasury bond ETFs generate income that is subject to federal income tax but should be exempt from state and local income taxes if the fund sponsor and the shareholder meet the state's administrative requirements.

The iShares GS Corporate replicates its underlying target index, but the other bond ETFs use optimized sampling techniques. Because bonds have a given lifespan before they mature, a bond ETF portfolio needs to be reconstituted frequently, reflecting changes in its target index. This process could lead to some capital gains distributions. You could generally expect a bond ETF to have a higher portfolio turnover rate than the broad-based equity ETFs tracking benchmarks like the S&P 500, Dow Jones industrial average, and the Wilshire 5000. ▲

Index Return 1 Yr (%)	Tracking: Index – NAV Return (%)	8/31/2004 Weighted Avg Mat Fund (Yrs)	8/31/2004 Weighted Avg Mat Index (Yrs)	30-Day SEC Yield (as of 9/16/04) (%)	Volume	Exp Ratio (%)	Index Tracked
–1.29	–0.06	10.16	10.29	4.77	111,400.5	0.15	Goldman Sachs InvesTop Index
0.47	0.12	1.72	1.91	2.27	211,636.5	0.15	Lehman 1-3 Year Treasury Index
–2.62	–0.10	7.84	8.81	3.85	196,097.5	0.15	Lehman 7-10 Year Treasury Index
–4.86	0.06	22.88	23.20	4.58	887,636.0	0.15	Lehman 20+ Year Treasury Index
0.32	na	6.25	7.29	2.81	67,898.5	0.20	Lehman U.S. Aggregate Index
3.86	na	11.41	11.34	1.36	101,936.1	0.20	Lehman U.S. Treasury Inflation Notes Index

Tracking: Index – NAV Return (%): The difference between the underlying index return and the fund NAV return. A negative sign indicates the fund's NAV return outperformed the index. This provides an indication of how closely the ETF portfolio tracked the index over the last year.

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Weighted Average Maturity (Yrs): Average maturity of the bonds based on their percentage holding in the fund or index.

30-Day SEC Yield (%): Yield net of expenses for the most recent 30-day period as of September 16, 2004.

Volume: Average volume of shares traded for the last 200-day period through September 14, 2004.

Expense Ratio (%): The expense ratio for each fund.

Index Tracked: The underlying index that the fund is structured to track.

set value—this number is updated every 15 seconds based on the real-time prices of each of a fund's underlying holdings. It is called "intraday value" for the domestic funds and "indicative optimized portfolio value" for the non-U.S. portfolios. The latter number also reflects changes in foreign-exchange rates. Thus, the value can fluctuate on the basis of currency movements if the home market is closed when an iShares MSCI fund trades in New York.

Ticker symbols for these funds, along with considerable other trading, performance and structural details, can be found in the individual fund “tear sheets” at the American Stock Exchange Web site.

Premiums and Discounts

While premiums and discounts are generally not a major issue, they may be larger in special instances. End-of-day discounts and premiums are readily available at ETF Connect (www.eftconnect.com). In addition, Barclays Global Investors’ Web site provides this information daily for all iShares (www.ishares.com). Finally, Morningstar (www.morningstar.com) provides historical discount/premium charts as a part of its Morningstar Quicktake Reports. (See page 29 for more Web resources.)

Liquidity and Trading

Liquidity is the ease with which an investment can be bought or sold for a price at or very close to the recent quote.

Some of the newer funds are based on highly specialized indexes and thus may not appeal to enough investors to gain adequate liquidity. It’s very difficult for market makers to trade shares of illiquid funds. Low volume and wide spreads often plague such funds. (The spread is the difference between a fund’s bid and asked prices.)

You can try to minimize or avoid the spread with a tradable fund. A price-conscious way to buy and sell shares is by placing a limit order to buy at or slightly below the bid and to sell at or slightly above the asked price. Prices fluctuate throughout the day and—as with any stock or closed-end fund—it’s very difficult to time your trade so as to buy at the day’s low or sell at the day’s high. The limit order provides control.

What the Listings Show

Our guide to exchange-traded funds lists all ETFs according to their category, allowing you to easily compare similar funds. The categories include:

- U.S. Broad-Based Large Cap
- U.S. Broad-Based Mid Cap
- U.S. Broad-Based Small Cap
- U.S. Sector
- Foreign—Global
- Foreign—Regional
- Foreign—Single Country
- Foreign—Sector

Fixed-income ETFs are listed and discussed on pages 26 and 27.

Here’s what our stock listing includes:

Ticker Symbol

Symbol: The symbol for the stock price at which trading occurs. This is the symbol you would use when buying or selling shares.

Risk

RiskGrade: A risk measure that relates the volatility of a particular portfolio to a portfolio of all stocks worldwide during normal market conditions. The base worldwide stock portfolio has a RiskGrade of 100; a portfolio with a RiskGrade of 77 implies that it has a risk 77% as high as the average risk of the worldwide stock portfolio. (The RiskGrade Web site at www.riskgrades.com provides the mathematical details of the approach.)

Performance Information

Market Return: The one-year return net of expenses for each fund based on its market price, through June 30, 2004. This is the actual return you would have received if you had invested in the fund over that one-year time period. Keep in mind, however, that it does not include brokerage commissions or spread costs you would incur when buying or selling the shares.

NAV Return: The one-year return for each fund based on its net asset value, through June 30, 2004. This provides an indication of how the underlying portfolio of stocks performed over the time period. Funds in which the market return is closer to the NAV return trade with lower discounts and premiums.

Index Return: The one-year return through June 30, 2004, of the underlying index tracked by the fund. Index returns are not included for HOLDRS because they do not track an index.

Tracking Index – NAV Return: The difference between the index return and the fund’s NAV return, an indication of how closely the ETF tracked its underlying index over the time period. Most funds tend to underperform the index, primarily due to expenses. Other factors may also lead to tracking differences. Note that a negative sign indicates a fund outperformed the index.

Trading Information

Closing Price, 52-Week High and 52-Week Low: The closing market price of the fund on September 14, 2004, and the high and low closing prices over the last year through September 14, 2004.

Volume: The average volume of shares traded for the fund for the last 200-day period through September 14, 2004, providing an indication of the liquidity of the fund. Lower volume tends to lead to wider spreads between the buy and sell prices of the fund.

Expenses

Expense Ratio: The expense ratio for each fund. Keep in mind that these expenses are at the fund level. To purchase or sell shares, you will incur brokerage commissions.

ETF Structure

Whether the fund is structured as an open-end mutual fund, a unit investor trust or a grantor trust (HOLDRs).

Index Tracked

The underlying index that the fund is structured to track. ➤