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VF Wealth

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My ETF-Strategy

Times have changed. Since the eighties, the developed markets have not experienced any significant inflation. Rates between zero and two percent were the norm. This means that your purchasing power will halve over a period of 50 years. But those times are over!

Inflation is here to stay!

With the gradual end of the Corona pandemic, inflation began to rise from 2021, well before the war in Ukraine. In 2022, record highs were reached that had not been seen since the beginning of records in the early 1950s. While many hope that everything will turn for the better and inflation will decrease, it is already clear that leading bankers see it differently. Joachim Nagel, head of the Deutsche Bundesbank, expects consistently high inflation rates. This will not necessarily correspond to the extreme values of 2022, but with an inflation rate of five percent, the purchasing power of your money will already have halved in just 14 years. Rates of seven percent lead to a halving of purchasing power after ten years, while rates of ten percent destroy half of your money in just seven years!

Time to act is now!

The devaluation of purchasing power is progressing at a much faster rate than we have ever experienced in our lifetimes. Interest rates have responded by increasing tenfold but still lag behind the inflation rate. A complete reassessment of asset classes has taken place, resulting in many investors suffering losses. A study by Goldman Sachs states that most private investors are completely misaligned for the coming years. Many are still stuck in the mindset of low inflation and negative interest rates. In the future, money will again have a price determined by the level of interest rates. Not all business models will work anymore. Therefore, it is important to invest your assets accordingly. I have done this years ago and diversified my investments. In addition to stocks from large and small companies, spread across developed and emerging countries and across all continents using various strategies, I invest in real estate, precious metals, and bonds. Many are unaware that you can easily build a real estate portfolio across Europe, the USA, and Asia using ETFs – without the risks associated with tying up all your money in one location when directly purchasing a property. Precious metals in the form of physical purchases, supplemented by gold mines, provide me with security that worked even in 2022 despite corrections in the stock markets. Lastly, the rounding off with the "newly discovered" asset class of bonds makes a lot of sense. These cushion a portfolio during abrupt sell-offs, achieve an attractive interest rate once again, and allow funds to be parked for targeted repurchases. Repurchases are a perfect opportunity to profit from crises and crashes. Of course, I will always keep you informed when I see opportunities or make changes to my portfolio.

Buying ETFs: Step-by-Step Guide for Beginners

1. To buy ETFs, you first need a securities (brokerage) account where your ETFs will be held or stored. You can open this either with your local bank or, even better, with an online broker, as the fees for buying and selling ETFs are usually lower there. Additionally, many online brokers offer cost-effective options to set up ETF savings plans (i.e., regular purchases for small amounts).

2. Opening a securities account with an online broker is relatively straightforward nowadays. Filling out the application typically takes no more than 15 minutes. It usually takes about a week until you can start using your new account. However, for account opening, you need to identify yourself, usually through online identification with a webcam.

3. A brokerage account also includes a clearing account. Once this is opened, you can transfer money from your checking account, which you also have to specify as a reference account, and then buy ETFs in your brokerage account. Dividends that may accrue will also be credited to this clearing account.

4. Another step when opening a securities account is to assess your own risk tolerance. This usually ranges from A (conservative) to E (highly speculative). Most ETFs are classified in categories C to E. If you value the option to trade all ETFs, you should classify yourself as "E". However, this by no means implies that you are actually trading in a highly speculative manner. We strongly advise beginners against ETFs with leverage or short-term speculation with ETFs!

5. ETFs are traded on the stock exchange just like stocks, and you can buy them during regular trading hours for example, on the stock exchange in New York. The stockbrokers continuously provide buy and sell prices. Purchases and sales are executed promptly if the order criteria (limit, etc.) are met.

6. When you want to buy an ETF or set up a savings plan, you first need to know exactly which ETF it should be. All ETFs can be precisely identified by a so-called ISIN (International Securities Identification Number). You enter it into the "order mask" of your broker and will then immediately see the respective ETF, usually with the current stock exchange prices. You can access the order mask in the login area of your broker.

7. Then you also need to know the amount you want to invest. Divide this amount by the current stock market price of the ETF to determine the number of units. You must round the number of units up or down to whole shares (although some brokers already allow trading with fractional shares, like 1.57 ETFs). The investment amount must, of course, be available on your clearing account for the purchase.

8. The prices at various trading venues where you can buy will be displayed in the order mask. If these prices are in real-time, there is a high likelihood that you will receive this purchase price when clicking the "Buy" button. However, the displayed prices are often delayed by 15 minutes, so your actual purchase price may differ from the displayed price.

9. To avoid buying at a significantly higher price than desired, you can set a purchase limit just above the current price. And you should do this to protect yourself against sudden price jumps. However, it's best not to set the limit too tight, otherwise, there is a risk that your order will not be executed due to minor price differences.

10. When you set a purchase limit, you will be prompted to specify a validity period for the order. You can usually choose from "valid for the day", "ultimo" (until the end of the month), or a time period you define individually.

11. Lastly, you will be asked to confirm receipt of the sales documents. Here, you can review your order one last time.

12. In the order book, after confirming the order, you can check the status of your order. If the purchase was successful, it will be immediately displayed to you. With some brokers, the entry into your portfolio is made after 2 banking days.

13. For the ETFs in your portfolio, you can set stop-loss prices to limit your losses in the event of an undesired price drop. However, we do not consider this to be very sensible for long-term investments. In the section "Risks with ETFs", we explain exactly why. Nonetheless, you should occasionally check the development of your long-term oriented ETF portfolio.

What You Need to Know About ETFs!

What are ETFs? The abbreviation ETF stands for Exchange Traded Funds. These are, as the name suggests, investment funds traded on the stock exchange. However, some actively managed funds can also be bought and sold through the stock exchange. In contrast, ETFs precisely reflect the price development of a specific index, usually a stock index, and are therefore also referred to as index funds. The composition of an ETF is not actively determined by a fund manager but is predefined by the index. Like actively managed funds, ETFs have no fixed term. As an investor, you can trade ETFs like stocks at the current market price on the stock exchange.

How does an ETF on the S&P 500 work, for example? In an ETF on the stock index S&P 500, for example, the 500 stocks from the index are included, exactly as the weighting of the individual stocks in the S&P 500 dictates. In other words, if the S&P 500 rises by one percent, the S&P 500 ETF usually gains one percent in value.

How is the price of an ETF determined?

The market price of an ETF, unlike stocks, is not primarily determined by the interplay of supply and current demand, but, like actively managed funds, by the value of the stocks or other securities contained in the ETF. Professionals call this the Net Asset Value (NAV). This ensures that the respective ETF precisely reflects the price development of the underlying index, such as the S&P 500. Because when you buy an ETF, you become a shareholder of the stocks or other securities contained in the ETF and participate in their performance.

Providers of ETFs

When selecting the right ETF provider or the right fund company, as an investor, you have it relatively easy, at least if you focus on common stock indices. Once you have decided on a stock index in which you want to invest, the choice of which of the roughly ten ETF providers you choose becomes almost irrelevant. The differences in returns and fees are comparatively small.

How are ETFs managed?

Unlike actively managed funds, ETFs are passively managed. The goal is for the respective ETF to closely replicate a benchmark index (also called a reference index). Consequently, no fund manager is actively involved in continuously monitoring the composition of the ETF and adjusting it to the current market situation. The reference index itself dictates the composition, and adjustments are usually rare and only made according to the respective index rules.

For example, stock A had to leave an index. Stock B replaced it. The providers of the Index ETF now have to sell stock A in their portfolios and buy stock B in such a way that the price development of the index continues to be mirrored 1:1.

What risks are associated with ETFs?

When buying ETFs, you essentially take on the same risks as when buying actively managed funds and purchasing stocks. Market developments can move against you and lead to price losses. In addition, there is criticism of ETFs that attribute a particular risk to them. However, this is a complex issue that we will delve into more precisely in the section "Risks with ETFs".

What You Need to Know About ETFs!

What costs are incurred when trading ETFs?

Since ETFs are passively managed and, therefore, the job of the fund manager is less demanding, the management fee for ETFs is significantly lower than for actively managed investment funds. The annual management fee for ETFs averages between 0.10 and 0.70 percent, while actively managed funds charge between 1.50 and 2.20 percent, sometimes even more.

When you buy ETFs through the stock exchange, only the usual transaction costs (exchange fees) for buying and selling apply - without the front-end load often charged by actively managed funds, which can range from three to five percent.

➢ Index Funds and Actively Managed Funds Compared:

Passive Indexfonds	Actively Managed Funds
Investment Objective: Replicate the reference index	Investment Objective: Outperform the reference index
Ongoing Fees: Approximately 0.1% to 0.7% p.a.	Ongoing Fees: Approximately 1.2% to 2.2% p.a.
Costs: relatively transparent	Costs: Less transparent
No front-end load or acquisition costs	Front-end Load: Up to 5%
Performance: easily traceable, linked to the price development of the respective underlying index	Performance: Difficult to trace, depends on the quality of the fund manager
Tradeability: easily tradable directly on the stock exchange	Not all funds are tradable on the stock exchange
No profit participation by the fund management	Profit participation of up to 20% of the annual return possible
ETFs replicate the development of the reference index and thus deliver on their promise – albeit not more	Most funds do not deliver on their promises: According to studies, up to 90% do not beat the reference index – also because the high fees need to be earned

Are ETFs Suitable for Retirement Planning?

Due to their diversity and benefits such as transparency, low costs, and flexibility, ETFs are suitable for both short-term and long-term investment goals. If you aim to invest long-term, for example, with the goal of retirement planning, we believe an ETF savings plan offers advantages over a lump-sum investment. We will delve deeper into this topic in the section "ETF Savings Plan – How It Works."

Distributing and Accumulating ETFs:

With distributing ETFs, the income generated from the stocks held in the ETF, primarily dividends, is paid out to you. The distribution usually occurs on a quarterly basis. The amounts are credited to your clearing account, and you receive a notification from your bank or broker. Accumulating ETFs do not distribute the income but reinvest the earned profit directly back into the respective ETF. As a result, the value of your ETF investment increases, and you indirectly benefit or will benefit from the distribution in the future.

What You Need to Know About ETFs!

Distributing or Accumulating ETFs: Which is Better?

Neither is inherently better. The performance of both investments is the same. Experts refer to this as performance because it combines the pure price development and the distributions. From a tax perspective, both types of ETFs are largely equal. However, since you aim to benefit from the compound interest effect in long-term investing, you should either invest in accumulating ETFs or regularly reinvest the distributed profits.

Are ETFs Better Than Stocks?

ETFs are a complement to traditional stock investments. It is not mutually exclusive to have both in your portfolio. Many investors, especially in the long-term sector, opt for a broadly diversified ETF portfolio. This is particularly easy to implement since with just a few ETFs, you can cover thousands of stocks as well as dozens of countries, sectors, and currencies. For long-term investing, it is important to counteract the storms on the stock market through broad diversification. In addition to this, investments in individual stocks can also be considered. A medium-term stock portfolio with a horizon of, for example, 5 years or more can be used to "play" specific themes.

What Does the Total Expense Ratio Indicate?

The Total Expense Ratio (TER) of ETFs, like actively managed funds, is used to indicate the total costs. It is legally standardized what must be included in this cost ratio. Therefore, it is well-suited for cost comparisons of ETFs. The main component of the TER is the annual management fee. Individual costs incurred by you when buying and selling, such as bank, custody, or exchange fees, are not included. As an investor, you have to pay these costs directly.

Six Key Facts About ETFs Summarized:

1. ETFs are exchange-traded index funds. They track the performance of a reference index. The reference index does not necessarily have to be a stock index; it can also include other types of securities such as bonds, currencies, etc. There is now an immense variety of markets, countries, and indices that you can trade with ETFs.

2. ETFs combine the easy tradability of stocks with the risk diversification of your entire portfolio. You can trade ETFs at any time during the regular exchange trading hours.

3. ETFs are particularly cost-effective since, due to their passive investment strategy, they do not require fund management. Consequently, ETFs cannot perform better than their reference index but also not worse.

4. ETFs are efficient, transparent, and flexible. They offer numerous advantages over other types of securities but, like all other securities, are subject to general risks such as currency risk, market risk, etc.

5. Due to their low costs, high liquidity, and the number of markets they can cover, ETFs are a versatile investment instrument.

6. ETF savings plans are a good way to build long-term wealth. Unlike lump-sum investments, there is no timing risk with these, and you can benefit from the cost-average effect. You can save money according to your individual needs and flexibly respond to changes in your personal life situation.

What You Need to Know About ETFs!

What is Smart Beta?

ETFs allow investments in common stock indices such as the S&P 500. However, thematic indices that select their components based on specific criteria, such as corporate key figures, are becoming increasingly popular. "Smart Beta solutions" are referred to when indices try to exclude certain risks due to their rules. This usually concerns lower volatilities or quality criteria for the companies in the index. We believe that overly complicated indices can lead to a loss of a crucial advantage of ETFs, namely transparency. It is better to invest in ETFs based on well-known indices.

Are ETFs Particularly Protected?

The fund assets (the assets of an investment fund including cash) are considered special assets and are legally protected. This means that fund companies must keep client funds separate from corporate assets for accounting purposes. If the company that launched the fund goes bankrupt, the fund assets and thus your deposit are protected from the claims of other creditors. In the event of bankruptcy, the fund assets would be distributed to the investors. The investments of ETFs (index funds) are also considered special assets and are protected in the event of insolvency. However, some stock funds and ETFs lend their stocks to other financial companies, which use them for short selling. For such transactions, collateral must be deposited, but there is still a risk of loss for the fund company. This does not change the fact that your fund investment remains protected as special assets.

ETC, ETN, ETF: What Are the Differences?

In addition to the classic ETFs, which allow investments in stock indices, there are also ETCs (Exchange Traded Commodities) that represent investments in commodities. Important: Only ETFs are considered special assets, thereby offering investors high protection. The investments represented by an ETF are always secured either by real stocks or other assets. In contrast, ETCs are considered secured, indefinite securities with debt-like characteristics. ETNs (Exchange Traded Notes) are issued directly from the issuer's balance sheet and are not considered special assets. In recent years, however, ETNs have rarely appeared on the scene.

Caution! All Costs Count!

The "official" performance does not necessarily reflect what you actually receive. The calculation of the performance of funds only includes the fees and costs incurred by the funds themselves. Costs incurred by you as an investor, such as exchange fees and the difference between the purchase price and the selling price (the so-called spread), are not taken into account. For actively managed funds, this is particularly significant because the front-end load you have to pay is also not considered in the performance calculation.

ETF Savings Plan: Here's How!

Build wealth with a low capital investment

The long-term investment in ETFs to build wealth and prepare for retirement is essential. Other investment forms, such as fixed deposits and bonds, currently yield minimal returns. Especially when considering the high inflation rates, a negative real interest rate remains. Investing in stocks, on the other hand, averages a return of 7 percent per year over the long term.

Invest in stocks starting from $25 per month

ETFs offer optimal entry conditions for everyone, as saving can begin with small amounts. An ETF savings plan is possible with a monthly savings rate of $25 or even lower. Some brokers offer entry starting from $1. The chart below illustrates how a savings plan works and how wealth can be built with it. The "dollar-cost averaging" approach of an investment through a savings plan also has other advantages, namely the so-called cost-average effect.

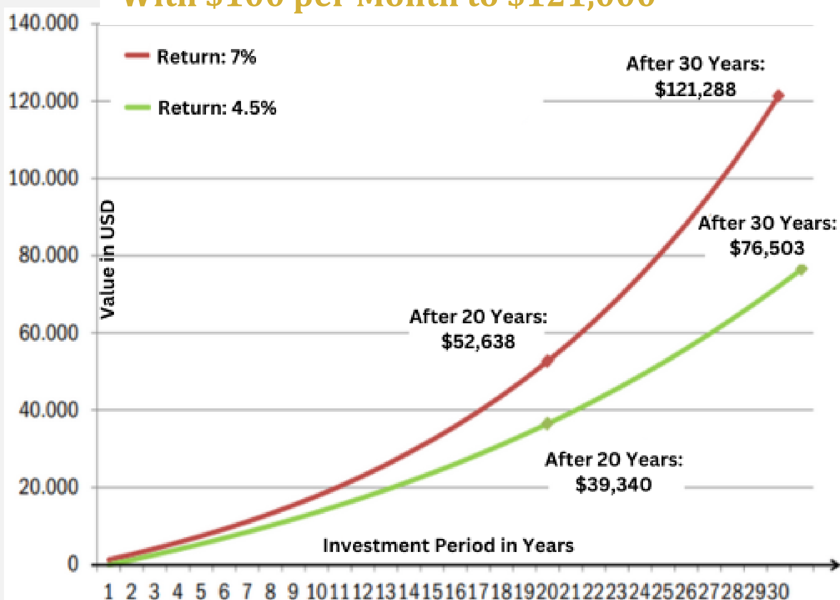
What to consider with a savings plan!

If you want to set up an ETF savings plan, you should open an account with an online broker. A strong competition has emerged recently, ensuring that many ETFs are offered for savings plans at sometimes low costs. Most online brokers now even offer free savings plans for many ETFs. This makes a significant difference because even a fee between 75 cents and $3 per savings plan purchase equates to a hefty fee of 1.5 to 6 percent for an order of $50.

In what interval should you save?

Ideally, you should save monthly. Investment via an ETF savings plan usually works by direct debit, so your bank deducts a fixed amount every month and invests it in the ETF you selected. Virtually all direct banks offer this from a minimum savings rate of $25. If this is too much for you, you can also save quarterly or at any other interval.

With $100 per Month to $121,000



Consistent Investing Leads to Success:

In the chart, we have based our calculations on a monthly investment amount of $100, or $1,200 per year. With an average annual return of 7% - typical in the stock market - an initial investment of $24,000 would grow to nearly $53,000 in 20 years. Even with a below-average return of 4.5%, the growth would still exceed 50%. The chart illustrates that the power of compound interest potentially enhances the growth. For those who exercise patience, start early, and invest for 30 years, a total investment of $36,000 could multiply to over $121,000. Higher monthly savings amounts amplify the growth accordingly: for instance, a monthly investment of $250 would grow to more than $300,000 in 30 years!

ETF Savings Plan: Here's How!

Which ETF should you buy?

The more you diversify, the smaller the risk! As the basis of an ETF portfolio, you should therefore focus on an index that includes stocks from as many countries and sectors as possible, such as the MSCI World Index. If you have a well-founded opinion on specific markets or countries and expect a positive development, you can also buy ETFs on these markets. However, such specific ETFs should only represent a small part of a long-term oriented ETF portfolio. In the further parts of this course, we will delve into this in more detail and present the ETFs in which we invest for our ETF portfolio. But never forget the basic idea: The goal of saving is long-term investing, not reacting to short-term fluctuations in the stock market or getting rich quickly. Your strategy should be free from impulsive decisions and unaffected by current events. Simply invest month by month, save money, and let your wealth grow over years and decades.

Lump-sum investment in an ETF savings plan: Is it worthwhile?

As the basis of your wealth building, you can initiate the savings plan with a one-time investment at the beginning. However, in our opinion, it is better to spread this initial deposit over 18 to 24 months with a higher savings amount to also benefit from the cost-average effect.

How to save costs

Small investment amounts often have the disadvantage that the costs, i.e., the purchase fees, weigh too heavily as a percentage. Even the cheapest online brokers charge 1.50% per savings rate. For an investment amount of $50, this is $0.75. Fortunately, the competition for customers is large, so most online brokers offer free savings plans for selected ETFs. These offers change, but you usually have a large selection.

➢ ETF Savings Plan: Step-by-Step Guide

1. To establish an ETF savings plan, you first need to determine which ETFs (one or more) you wish to invest in and decide on your monthly savings amount. Not all ETFs are "savings plan eligible," but the selection is extensive. Pay attention to the costs and, whenever possible, choose an ETF for which a free savings plan is offered.

2. The setup of an ETF savings plan generally works like purchasing individual ETFs. However, in your online broker's menu, you must select "Securities Savings Plan."

3. In the order mask, input your desired savings rate and the ISIN or ticker symbol of the ETF you intend buy.

4. Then, select the interval at which you want to save, as well as the day (e.g., the 15th of each month) on which the purchases should be made. You must also specify the start date for the savings plan. While you can set an end date, it is advisable to leave this open.

5. You can either set up an automatic debit from your reference account (your salary account), or you need to ensure there is always sufficient funds in your settlement account for the monthly savings rates.

6. One of the significant advantages of an ETF savings plan is its flexibility. You can adjust the savings rate or interval at any time, temporarily suspend the savings plan, or switch to a different ETF in which to invest.

Risks Associated with ETFs

Investments in ETFs have multiplied in recent years. Many investors now prefer ETFs over individual stocks or actively managed funds. This dominance and success have drawn critics: some argue that ETFs are even more vulnerable than individual investments in times of crisis. This would contradict the desired effect for us as investors, namely, to reduce investment risk by investing in an entire stock index. What truth is there to this accusation?

Do ETFs Amplify a Market Crash?

Essentially, critics are concerned about the market power of ETFs. Some experts particularly see the risk that an ongoing market sell-off could intensify if sellers of ETFs do not find enough buyers. Indeed, during a panic selling movement, ETFs can become a bottleneck and exacerbate the trend – in this case, the downward trend. However, this also applies to stocks and actively managed funds. If you want to sell your stocks during a genuine crisis, such as the 2008 financial crisis, you might also have to accept unreasonably low prices. This is simply the case when many sellers meet few buyers.

Interconnectedness as a Risk

But that's not all. Some critics fear that the intensive networking of the fund industry, the use of financial products (swaps), and even the common practice of stock lending (which, incidentally, is also done by actively managed funds) could lead to a "meltdown" of the financial markets. In other words, more and more fund companies and financial institutions could become insolvent and be dragged into the downward spiral. A nightmare scenario.

What is a Swap?

"Swap" fundamentally refers to an exchange transaction. In the context of ETFs, a swap refers to an agreement between two parties to exchange the performance of a basket of stocks with the performance of a defined index. Fund management companies that issue ETFs can replicate indices through swap transactions without actually holding all the stocks included in the respective index, as is customary with actively managed equity funds. Such ETFs replicate indices synthetically, and they are referred to as synthetic-replicating ETFs. In contrast, physically-replicating ETFs replicate the respective index physically, meaning the fund management company directly invests in the stocks included in the index.

Note: Even with synthetic-replicating ETFs, the fund assets are considered special assets and are therefore protected in the event of the fund management company's insolvency.

All Investments Are Vulnerable in a Crisis

How do we assess this risk? Honestly, we don't know. Such a situation has never occurred before. It's hard to say whether a crisis today would have more catastrophic effects than in 2008 when ETFs were scarcely represented. However, we believe that during a genuine financial crisis, it doesn't make a significant difference whether you have an actively managed fund in your portfolio or how your ETF is structured. The entire industry is interconnected, and all funds, banks, and financial firms would be affected. For a long-term investor, the most effective protection against this risk is counter-cyclical behavior. So, don't sell when everyone else is selling. Please also read our tips at the end.

Risks Associated with ETFs

ETFs Often Do Not Purchase All Stocks in the Respective Index:

Another major concern for many is the construction of ETFs. It is not always the case that the fund managers of an ETF buy all the stocks contained in an index and hold them as security. Often, only the most significant stocks of an index are purchased. In this case, it is referred to as "optimized sampling" as opposed to complete or physical "replication." Replication simply means imitation. However, we consider it reasonable that an ETF fund company does not buy all the stocks from an index. Some stock indices contain a vast number of stocks, for example, the MSCI World Index comprises a significant 1,600 stocks. It is in the best interest of investors to reduce replication costs and for the fund company to purchase only the most important stocks. The fact that the ETF still precisely reflects the price development of the underlying index is guaranteed by financial constructs and by market makers.

Replication via Swaps – Unjustly Under Scrutiny?

Many ETFs are considered to be synthetic replicating or swap-based ETFs, where the respective index is replicated through swaps, i.e., exchange transactions. In this case, another financial company, such as a bank, guarantees the replication of the index to the respective fund management. In this scenario, the fund management does not hold the stocks from the index 1:1 in its portfolio but possibly other securities. However, the stock portfolio must be broadly diversified, and the securities must be easily tradable.

Additionally, the ETF company must publish online the exact stocks it holds in its portfolios.

Technically, replication via swaps works as follows: The value of the swap is adjusted by the financial company acting as a partner to the fund company in such a way that, together with the swap, the basket of stocks precisely replicates the performance of the underlying index.

Big Business!

ETFs represent a massive business for fund management companies! Consequently, a significant amount is invested in marketing and the development of new indices and products. Often, the goal is to create an ETF that promises higher returns, less risk, or both by participating in specially selected stocks. In our view, this contradicts the fundamental idea of ETFs, which is to participate in the general stock market development. Moreover, more complex ETFs are also more expensive.

Resist such marketing promises and, especially for long-term investments, focus primarily on well-known indices.

The Differences Aren't That Significant

Swap-based ETFs are not a "black box" where one is uncertain about the handling of their money. Physical replicating ETFs, as well as other investment funds, also purchase derivatives and lend securities. For instance, stocks are lent to hedge funds that speculate on falling stock prices through short selling. However, all ETFs permitted in Europe are subject to strict UCITS (Undertakings for the Collective Investment in Transferable Securities) regulations, which you

can recognize by the UCITS addition in the ETF name. Furthermore, the entire market is overseen by national and international regulatory authorities.

Of course, this doesn't rule out a financial crisis. For example, the lending partner (often a hedge fund) or the swap counterparty could go bankrupt. In such a scenario, investors would have to hope that the replacement securities in the fund also perform well. However, this risk exists regardless of the replication method. The swap counterparties are typically large banks, which, if they were to collapse, could trigger a global crisis. This makes bankruptcy unlikely but not impossible. From our perspective, the much more realistic risk is the general market risk to which all securities investments are exposed – in other words, the risk of a market crash. Importantly, the invested capital in swap-based ETFs is also considered special assets and is secured by securities. In this respect, ETFs do not differ from actively managed funds.

In the event of insolvency, the special assets do not fall into the bankruptcy estate; instead, you will receive the current value of your investment in securities or in cash. If you still feel uneasy about swap-based ETFs, you can opt for those with full or partial physical replication (optimized sampling). For ETFs tracking major indices, you often have this choice.

No Guarantee?

Even though ETFs are designed to track the index, no ETF fund company guarantees this in their terms and conditions. Strong fluctuations are always possible in the short term, as has been demonstrated in recent years. Discrepancies arise between the "fair value" and the "traded value." If the fair value is not calculable, then hardly any market maker, who is supposed to ensure smooth trading, will provide the necessary liquidity.

Such discrepancies arise not only during crash phases but can also occur on very weak days, as occasionally seen even in a bull market. In August and November 2015, ETF positions in the (very broad-based) S&P 500 were partially sold with losses of 25 to 50 percent, even though the index itself peaked at just over ten percent loss. This is because financial service providers and market makers cannot keep up during extremely volatile periods.

To protect against such a crash in your ETF savings plan, you can only safeguard by placing no stops or only very distant stops.

Be Cautious: ETF Investments for European and U.S. Investors

ETFs, like other investment products, are subject to approval by regulatory authorities. In Europe, this approval is governed by the UCITS directives. As a European investor, it's advisable to choose ETFs approved within Europe and to avoid those from the USA. Conversely, U.S. investors should steer clear of EU-domiciled ETFs. I personally am from Europe, and here, many online brokers and banks restrict the purchase of ETFs exclusively approved in the USA due to the MiFID II regulations implemented since early 2018. Such ETFs can be identified by the ISIN, which starts with the country code "US...".

While it's possible to buy ETFs directly on U.S. exchanges (provided your broker permits it), the taxation can be complex, and certain laws result

in higher taxes. Moreover, if complications arise, legal actions would need to be pursued in the USA. On the other hand, US citizens cannot purchase UCITS (European-domiciled and regulated) ETFs at all due to the punitive US tax treatment of PFICs (passive foreign investment companies).

Therefore, I incorporate both EU-domiciled and U.S.-domiciled ETFs for each position in the ETF Portfolio. This approach enables all of our readers to follow my strategy of a well-diversified ETF strategy. Performance deviations might and will occur between the EU version and the US version of our model portfolio. However, that's acceptable as the desired portfolio allocation is achieved with both versions, and over the long run, the performance should balance out.

Our advice to make a long-term portfolio as crisis-proof as possible:

1. For long-term retirement planning, opt for a mix of regular savings plans and one-time purchases. With a one-time purchase, you can lay the foundation, and through savings plans, you can invest capital regularly.

2. ETFs are an excellent way to diversify your investment assets or to invest in individual countries, for example. Don't let the critics unsettle you. Caution is always good, but if you prefer actively managed funds over ETFs, you are not really reducing your risk.

3. To genuinely reduce your investment risk, it's best to only buy ETFs of large and liquid indices! Such as the MSCI World, the MSCI Emerging Markets, or the US index S&P 500. And if you buy multiple ETFs, it doesn't hurt to choose different fund providers.

4. In an ETF savings plan, do not set automatic stop orders. Otherwise, you might be stopped out too early in a short-term sharp price drop. After all, you want to benefit from the long-term rise in stock markets, so you should be indifferent to short-term ups and downs.

Our Conclusion

ETFs offer not only advantages but also some risks. It's essential to be aware of these, which is why we have presented them here. However, the asset class proved to be extremely robust during its toughest test in March/April 2020 during the so-called "Corona Crash". In our view, the biggest culprit for ETF risk is the pro-cyclical behavior of many investors. And: A price plunge would, of course, also affect investors in active funds.