High popularity, low penetration augur well for ETF growth

By Editor Test *Tue, Dec 28, 2010*

Research from Mintel shows that more than six in 10 investors—including high income investors--say they don't invest in ETFs simply because they "don't know what they are."

More two-thirds of the assets invested in exchange-traded funds (ETFs), which has surpassed $1 trillion (€735bn) in the U.S. alone, is held products offered by just three companies, according to BlackRock' global ETF research and implementation strategy team.

In its November ETF Landscape Industry review, BlackRock also said that its own ETF vehicle, iShares, claimed the biggest share of the market, with 486 out of 2,422 products and assets close to $550 billion, or almost 45% of the market.

State Street Global Advisors was second with $171bn in assets and a 14% market share, followed by Vanguard. In total, the 133 vehicles provided by these three companies accounted for 70% of the market, with 63% of assets held in the top 100 ETFs.

Over half of institutional investors surveyed by BlackRock expect their use of ETFs to increase over the next three years, with one in five saying their asset allocation to the product would grow by as much as 10% within that period.

The company also called for investors to agree to a clear definition of what constitutes an ETF, saying that some products on offer did not offer real-time net asset value indicators, with products that were not even funds claiming to be ETFs.

Despite their popularity, however, ETFs are still unknown to many people. Research from Mintel shows that more than six in 10 investors—including high income investors–say they don't invest in ETFs simply because they "don't know what they are."

Even among ETF owners, only 54% feel they are "very knowledgeable" about ETF investing, Mintel said. Only 17% of existing investors in mutual funds and individual stocked reported feeling comfortable with the idea of investing in ETF products.

"ETFs have not penetrated well into some potential markets," a Mintel spokesperson said. "One reason is that they are not commonly offered in qualified plans such as 401ks, but even those who invest in non-retirement accounts are still quite unfamiliar with the this newer type of investment." Given their lack of market saturation, Mintel predicts that ETFs will experience double-digit growth over the next five years.