
Morningstar introduces ETF analysis tool

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The new tool will measure tracking error, estimated holding cost, market impact cost, and portfolio concentration.

Morningstar, Inc. has introduced four new data points for exchange-traded funds (ETFs) that it claims will provide better measures of the total costs and risks associated with investing in individual ETFs.

Three of the new data points help to quantify the total cost of an ETF by measuring the contributions of an ETF's portfolio manager to performance and liquidity in the secondary market. The fourth data point measures portfolio concentration in individual sectors or individual securities, Morningstar said in a release.

The new data points are:

- **Tracking Error:** a measure of how closely an ETF follows its benchmark index on a day-to-day basis. Typically caused by sampling error or incomplete replication of the benchmark portfolio, tracking error can cause an ETF's performance to deviate dramatically from its index over time. Morningstar is the first in the industry to calculate tracking error on a daily basis.
- **Estimated Holding Cost:** a measure of cost that takes into account both explicit and indirect expenses and payments, like income to the ETF from lending shares to options traders. This measures long-term deviations from the index excluding intraday volatility.
- **Market Impact Cost:** a measure of an ETF's liquidity, by calculating the basis point change in an ETF's price caused by a \$100,000 trade. ETFs with lower liquidity can cost more to buy as large purchases drive up their price.
- **Portfolio Concentration:** a measure of portfolio concentration in a single or small number of sectors, countries, securities, or credit grades or durations, which can affect investment risk.

Morningstar covers about 98% of the ETF universe, with analyst research reports on more than 400 ETFs and data on approximately 4,500 ETFs. Morningstar has more than 15 ETF analysts globally.

The new data points are available in Morningstar Direct, a web-based global research platform for institutional investors, and through licensed data feeds. The methodology for the new ETF data points can be found at <http://global.morningstar.com/ETFdatapoints>.

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