ETFs are shuttering at a record pace

Some advisers say a cleansing is long overdue

Sep 2, 2016 @ 12:01 pm

By **Jeff Benjamin**

8 Shares

ETFs are shutting down at a record clip, but the shakeout is seen by some financial advisers as the natural evolution of a market saturated with too many funds.

Last month, 41 ETFs shut down, and 11 more are already slated to close in September. That compares to 40 closings through the first seven months of the year.

If the picked-up pace continues, **total ETF closings this year** could surpass the record 100 closing last year.

"This kind of thing is long overdue, because we need a really good healthy ETF cleansing," said Paul Schatz, president of Heritage Capital Management.

"We need a whole lot more to close, because there are way too many ETFs out there," he added.

Even with the pace of closing picking up, Morningstar counts 1,934 U.S. ETFs, with $2.4 trillion in total assets.

That's up from 1,770 ETFs and $2 trillion in total assets at the end of last year, and 1,648 ETFs with $1.9 trillion in total assets at the end of 2014.

Theodore Feight, owner of Creative Financial Design, attributes the picked up pace of closings to a growing distaste for ETFs following **last summer's flash crash,** which was a black eye for the ETF industry.

“After they screwed up last summer, investors lost confidence because they figured it was a rigged investment,” Mr. Feight said. “I think people are still very upset about last August.”

Todd Rosenbluth, director of ETF research at S&P Global Market Intelligence, described the closings as “ongoing pruning,” which he interprets as part of the evolution of the industry.

“It's not exactly like the ETF industry is retrenching, because firms have continued to expand product lineups,” he said. “I think what's really happening is large providers can afford to have products out there for a few years to see if it attracts investor interest, and if it doesn't work they will roll something new out.”

Unlike the mutual fund space, where similar funds can usually be merged with other funds, ETFs that are pegged to indexes are more easily just shut down when they are not attracting enough assets.

There is also the first-mover advantage in the ETF space that makes it more difficult to compete with similar products unless the competitor has the marketing and brand reputation to put up a good fight.

The shakeout could also be the result of the **increased granularity of the many of the ETF strategies.**

“The slicing and dicing of the indexes is almost ridiculous,” said Kashif Ahmed, president of American Private Wealth.

“One or two factors makes sense, but more than that makes no sense,” he added. “Most of these new ETFs are 'me-too' desperate attempts.”