One of the things that has improved investment strategy and performance in the past few years is the security type known as Exchange Traded Funds, or ETFs, which often (but not always) invest in major market indexes.

Index ETFs have a number of benefits:

- They offer an efficient way to diversify your portfolio.
- Most index ETFs are heavily traded, making them easy to get in and out of.
- They are inexpensive to own (with annual fees as low as one-tenth of one percent) compared to other types of diversified assets.
- Some ETFs excel at avoiding capital gains taxes.

First, some facts:

- ETFs are a security form, a hybrid of a stock and a mutual fund.
- Not all ETFs hold market indexes; some hold commodities.
- Some are actively managed like many mutual funds.
- ETFs trade all day.
- Investors that think the price of an ETF will drop have the opportunity to sell them short. Mutual funds price once a day, after the market close, and cannot be sold short.

At Helm, we focus on ETFs that hold market indexes, partly because they're efficient and partly because we are skeptical of anyone's ability to consistently beat market averages.

Stock market metrics have centered on indexes and averages since the late 19th century. In the 120 years since, indexes have grown increasingly accurate as a measure of the market and its many segments. In the 1980s, the Vanguard mutual fund family and the Chicago futures markets both latched onto indexes (especially the Standard & Poor's 500) as being tradable in their own right.

You can buy index ETFs from three major players: State Street Corp. SPDRs, Dow Jones DIAMONDs and Barclays Global Investors (BGI) iShares. These firms, and others, compete to offer access to U.S. and international indexes covering every global region, all market capitalization sizes (from large caps to micro caps), and growth and value investment styles. Each ETF gives diversification in its area: the 500 stocks of the S&P 500, for example, or the 823 stocks in the MSCI Europe, Australia and the Far East (EAFE) index.

Lively trading in index ETFs means there are buyers when you want to sell. This liquidity also narrows the bid-ask spread (the price you pay when buying a stock, bond, or ETF vs. the lower price you get when selling). That works with the low annual fees to keep investing costs low.

BGI avoids capital gains when it trades to track an index (the S&P 500 registers an average 8% turnover a year). The BGI ETF for the S&P 500 (*ticker: IVV*) has had no capital gains distributions since 2000. If you sell an ETF, of course, you do need to pay taxes on gains at that point. But the more you can defer taxes, the better.

For more information on ETFs, call us at Helm. You also can look at the excellent Barclays web site (www.ishares.com), or the ETFs section on Yahoo Finance (http://finance.yahoo.com/etf).