

An Investigation into Long-term Performance of Exchange Traded Vehicles

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DETAILED ABSTRACT

In the past few years many financial institutions have introduced a variety of exchange traded vehicles (ETVs) with a plethora of favorable claims to attract individual and institutional investors. These claims include more flexibility and liquidity, lower fees, reduced taxes, diversification and most importantly the ability to be traded intraday.

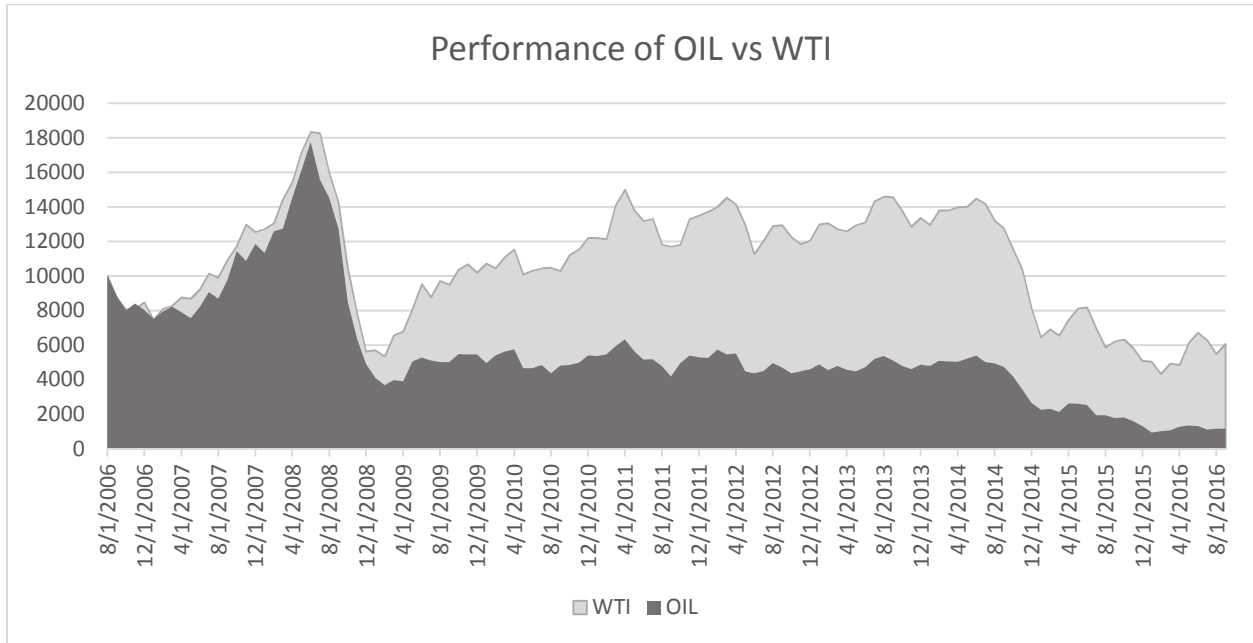
The type and the number of ETVs are growing by leaps and bounds. These products include exchange traded funds (ETFs), exchange traded notes (ETNs), exchange traded currencies/commodities (ETCs), etc. The first ETF was launched in the United States in January 1993 (ticker: SPY, aiming to track the performance of S&P 500 Index).

This study attempts to reveal the truth about the short-term as well as long term performance of ETVs by computing the performance of a few non-leveraged and leveraged ETVs in each of the above categories.

We selected monthly data for United States Oil Fund (ticker: USO); iPath S&P GSCI crude oil total return ETN (ticker: OIL); and State Street Global Advisors gold share ETF (ticker: GLD) from August 2006 to September 2016. August 2006 was selected as the starting period to reflect USO fund date of inception. Monthly values for these funds were mostly obtained from Yahoo website.

Figure 1 below compares the performance of OIL fund and its corresponding tracking benchmark for the period of study (August 2006-September 2016).

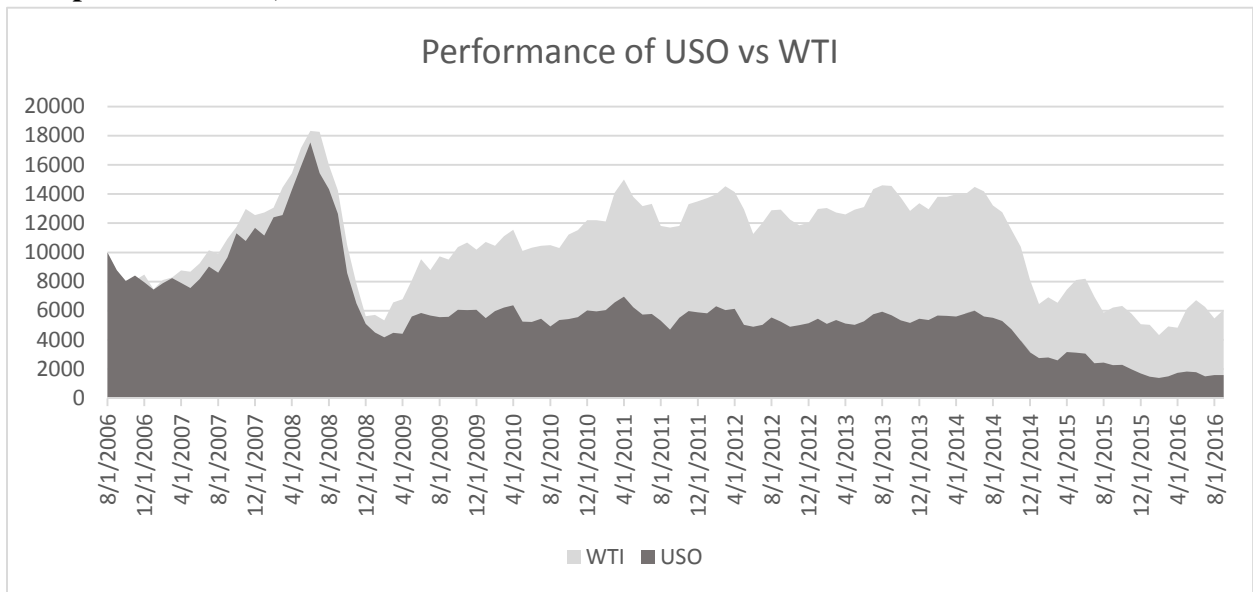
Figure 1 (August 2006-September 2016)
Comparison on \$10,000 investments made in OIL vs West Texas Intermediate Crude Oil



An initial investment of \$10,000 made in August 2006 would result in Balance of \$6,066.54 in September 2016 if invested in WTI and \$1,164.31 if invested in OIL.

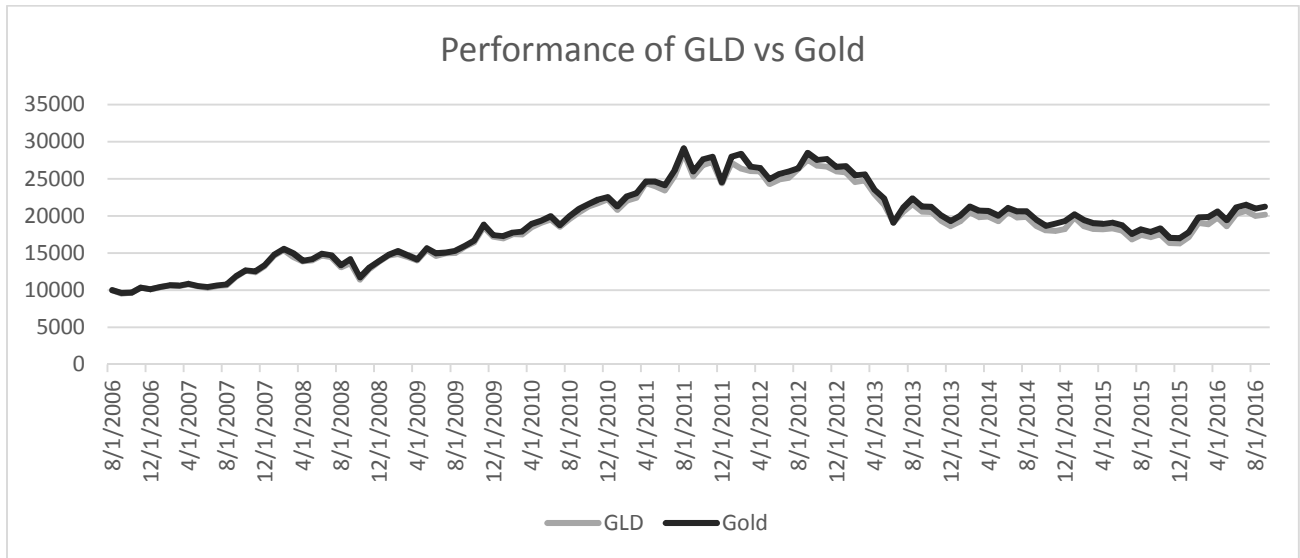
Figure 2 below depicts the performance of USO fund and its corresponding tracking benchmark for the period of study (August 2006-September 2016).

Figure 2 (August 2006-September 2016)
Comparison on \$10,000 investments made in USO or West Texas Intermediate Crude Oil



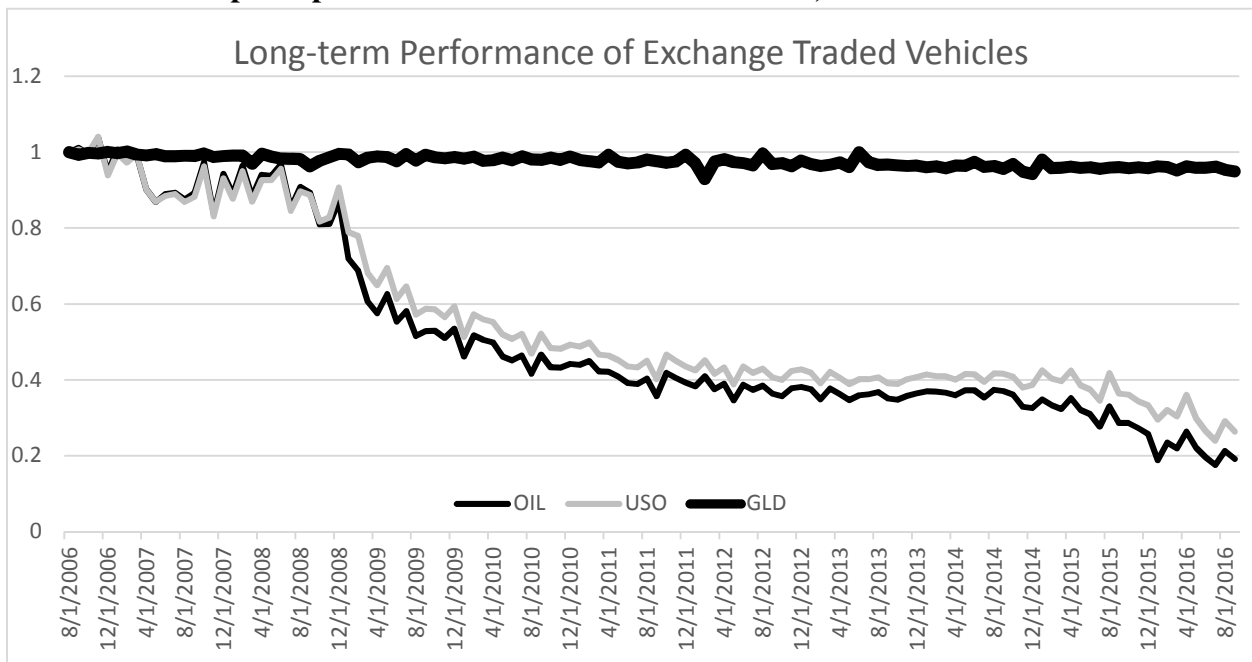
The following figure portrays the differences between \$10,000 investments made in GLD or real gold for the period of study.

Figure 3(August 2006-September 2016)
Comparison on \$10,000 investments made in GLD or Real Gold



Finally Figure 4 (below) identifies the remaining balance over time as the fraction of original investment.

Figure 4(August 2006-September 2016)
Potential loss of principal as a result of investments in USO, GLD or OIL



The numbers and figures above clearly indicate that investments in ETVs are very risky propositions and in many cases they grossly underperform their declared benchmarks.

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