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Issue #7: ETFs vs. Mutual Funds: Why Structure Matters

When attorneys think about investing, the focus is often on what they own (stocks versus bonds, domestic versus international, growth versus value).

Less attention is paid to how investments are structured, even though structure can meaningfully influence how portfolios behave across different accounts and over long periods of time.

Exchange-traded funds (ETFs) and mutual funds can both provide diversified exposure. But the way they operate – particularly when held in taxable versus retirement accounts – can lead to different outcomes that are worth understanding.

Why Structure Matters for Attorneys

Most attorneys invest across multiple account types:

1. Firm retirement plans;
2. IRAs and Roth accounts; and
3. Taxable brokerage accounts.

While ETFs and mutual funds may hold similar underlying investments, differences in tax treatment, pricing mechanics, and accessibility become more relevant as account balances grow and tax considerations become more complex.

Over time, these structural differences can shape how efficiently a portfolio supports long-term goals, even when investment allocation remains the same.

Key Structural Differences

At a high level, a few distinctions are worth understanding:

- **Tax Efficiency.** ETFs are generally structured to limit capital gain distributions in brokerage accounts, while mutual funds may distribute gains even when shares are not sold.
- **Liquidity & Pricing.** ETFs trade throughout the day at market prices, while mutual funds transact once daily at net asset value at the market close.
- **Costs & Transparency.** ETFs typically offer lower expense ratios and more frequent visibility into holdings, making it easier to understand what you own and how it's structured.

Neither structure is inherently "better". The value comes from using the right structure in the right account.

Practical Planning Considerations

Now that you have a clearer sense of how investment structure differs, it may be worth taking a step back and reviewing where different investments are held across your accounts. For many attorneys, this means looking at whether taxable accounts, retirement plans, and Roth accounts are being used intentionally, not just based on what was available at the time of contribution. Over time, aligning structure with account type can help improve efficiency, reduce complexity, and help ensure your portfolio is supporting your long-term goals in a more thoughtful way.

Looking Ahead

Investment success is rarely driven by one major decision. More often, it's shaped by a series of smaller, thoughtful choices made consistently over time. Understanding investment structure is one of those quieter decisions that can meaningfully improve efficiency without increasing complexity.

Thanks for reading this issue of ***Well Advised***. We hope this overview of investment structure provides helpful context as you review your accounts early in the year, and if any of this raises questions about how your investments are positioned, we'd be happy to talk.

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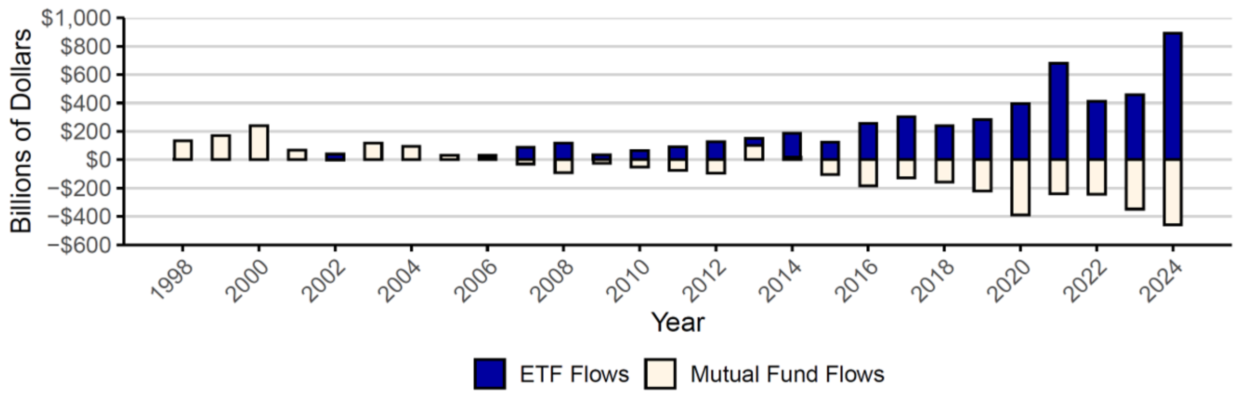
Chart of the Month: ETF and Mutual Fund Flows

This chart highlights a clear trend in how investors have been allocating new dollars over time. While both ETFs and mutual funds remain widely used investment vehicles, investor flows have increasingly favored ETFs, reflecting a shift in how portfolios are being constructed and managed.



Source: Morningstar Direct & The Federal Reserve.

Explaining the Chart:

This chart shows net investor flows into ETFs and mutual funds over time. In recent years, ETFs have consistently attracted a larger share of new investment dollars, while mutual funds have experienced more modest inflows and, at times, net outflows.

Our Perspective:

For many professionals, investment decisions evolve as portfolios grow more complex and span multiple accounts. As that complexity increases, structure matters. The steady shift toward ETFs reflects a growing preference for investment vehicles that offer flexibility, transparency, and ease of use across different account types.

Understanding these structural differences can help ensure portfolios are aligned with long-term goals, tax considerations, and overall planning strategy. While both ETFs and mutual funds can play a role, being intentional about how investments are structured is an important part of building and maintaining an efficient plan.

You Asked, We Answered

Each month the newsletter will include a reader-submitted question and our take on it. If there's a topic you'd like us to explore – or something you've been wondering about – we'd love to hear from you.

Question: "How often should I be reviewing my financial plan?"

Our Take:

While markets move every day, most financial plans don't require constant adjustment. For many attorneys, an annual review – often early in the year – provides a natural opportunity to step back and assess whether goals, priorities, and assumptions still align with where life and career are headed.

A structured review can be especially helpful after year-end, when compensation is clearer and upcoming decisions are easier to anticipate. This is often a time to revisit account balances, cash flow/reserves, savings strategies, and how different pieces of a plan are working together.

That said, meaningful reviews aren't driven by calendars alone. A financial plan should also be revisited when life changes, such as a compensation shift, promotion, partnership considerations, a move, a growing family, or a potential career transition. These moments tend to have a far greater impact on long-term outcomes than short-term market movements.

The purpose of reviewing a financial plan isn't to make frequent changes or react to headlines. It's to ensure decisions remain intentional, coordinated, and aligned with longer-term objectives as circumstances evolve.

Over time, a consistent review process helps reduce reactive decision-making and provides clarity around what matters most, allowing the financial plan to serve as a steady framework rather than something that's revisited only during periods of uncertainty.

Thanks for reading this issue of ***Well Advised***. If you'd like to submit a question for a future edition – or talk more about anything we covered today – we'd love to hear from you. Let's keep the conversation going.

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