# Banker Issues Warnings About E.T.F.s

**INVESTING**
LANDON THOMAS JR.

Stock market swings are feeding some fears about instant liquidity.

Peter S. Kraus, the chief executive of AllianceBernstein, strode with assurance into a Manhattan conference room full of financial advisers from a large investment bank. He was there to pitch them on Alliance mutual funds and promote the expertise of his stock and bond experts who manage these investment pools.

But the advisers had been doing a nice business ignoring these types of actively managed funds and steering their clients into cheaper, index-tracking exchange-traded funds. So Mr. Kraus had a gloomy message for those dazzled by the ascent of E.T.F.s.

"Let me bring it down to reality," Mr. Kraus said. "You guys woke up one morning in August and the Dow was down 1,090 points. And on that day a $40 billion E.T.F. traded at a 30 percent discount.

Mr. Kraus, who is 63 and spent 22 years at Goldman Sachs, addressed his audience in a cocksure manner often seen in Goldman executives who, failing to rise to the top there, move on to firms with a lesser pedigree.

"That should never happen, and if your client traded on that day, you will never get that back," he said. "Never. These funds may have low fees but they are not safe."

Mr. Kraus, as an active investor losing market share to E.T.F.s, has an open bias in this debate.

As the E.T.F. industry has grown (with close to $3 trillion under management globally), so have concerns that too much money has been lured into hard-to-trade areas of the market and into risky investment strategies.

Critics have included Stanley Fischer, vice chairman at the Federal Reserve, and investors like Carl C. Icahn and Howard Marks. And their complaint has been consistent: What happens if a wave of selling hits these funds, and investors can't get their money back?

The concern stems from the view that a rush of money into funds that promise instant liquidity is favoring those with a short-term, trading-driven market outlook as opposed to the patient, longer-term perspective espoused by buy-and-hold investors.

Recent stock market swings have heightened these fears. For example, large E.T.F.s promise immediate liquidity in illiquid areas — such as emerging-market bonds, leveraged loans and credit-default swaps. Also on offer are funds that borrow three times the amount of their assets to bet on markets going up or down in value.

AllianceBernstein, or AB, represents the opposite of this trend: It is an old-school money manager that offers, for a fee, a range of stock and bond funds that promise to beat benchmark stock or bond indexes. The problem is that since 2010 many of the so-called active funds offered by AB and its peers have trailed their benchmarks.

As a result, assets have steadily flowed from fund companies with an active orientation like Fidelity, T. Rowe Price and Franklin Templeton to larger firms like BlackRock and Vanguard that specialize in passive investment styles.

For example, AB's assets under management remain broadly where they were when Mr. Kraus was hired to revive the firm's fortunes in December 2008 — $463 billion. Actively managed mutual funds still make up two-thirds of the mutual fund market. But it's the increasing size and growth of the passive fund market that Mr. Kraus sees as a threat.

"If you absorb too much liquidity, there is just not enough grease to make the wheel work," Mr. Kraus said. "We have seen much higher volatility and much faster price reactions over the past few years, and the main reason is this shift from active to passive investing."

COLE WILSON FOR THE NEW YORK TIMES

OUTSPOKEN CRITIC **Peter S. Kraus said the dominance of Vanguard and BlackRock is a market threat.**

When Mr. Kraus says that the dominance of Vanguard and BlackRock, whose passively managed funds amount to more than $4 trillion, is a risk for investors, people — and the firms — take notice. Vanguard a threat to the market?

Joel M. Dickson, a senior executive within the indexing giant's strategy unit, said: "E.T.F.s reflect the market environment; they do not dictate it. We are just agents for our 20 million investors who are making their own investment decisions."

And Laurence D. Fink, the chief executive of BlackRock, by far the largest E.T.F. provider, rejects Mr. Kraus's contention that E.T.F.s will experience more sharp price drops as they did in August.

"We didn't have the problem — this was a market structure problem," Mr. Fink said. "Aug. 24 was a big event, but 90 minutes later everything was fine."

Some of BlackRock's largest E.T.F.s plummeted from 25 to 35 percent on that day — large moves for funds containing more than $60 billion in investor assets.

BlackRock has issued a research paper that concludes that the price drops were the result of panic selling by investors and a lack of trading information.

AB was a troubled firm when Mr. Knaus joined it. In recent years, performance has improved, and most AB funds invested in the United States stock market are now beating their indexes, according to the asset management tracking firm eVestment. Nonetheless, inflows have been muted as investor cash keeps pouring into Vanguard and BlackRock E.T.F.s.

And Mr. Kraus's advice to investors now is to move opposite of the herd: "People are just not assessing the risks right — these funds are free riders and they are not safe. You should be short them."

# A Plan to Jump-Start Retirement Savings

**YOUR MONEY**
ANN CARRNS

After an extended test period, the federal government is widely promoting its new savings plan called myRA, which is aimed at people who do not have a retirement plan at work.

Billed as a starter account to encourage retirement saving, the myRA, or my Retirement Account, program has been adjusted to make participation easier. Workers can have money automatically deducted from their paychecks, and they can contribute directly, using electronic transfers from a checking or savings account.

No minimum deposit is required, no fees are charged, and depositors have no risk of losing money, according to the Treasury Department. Workers may contribute up to $5,500 a year, or $6,500 if they are 50 or older, with a maximum total of $15,000. Participants may withdraw their contributions tax-free and without a penalty, so the money can be used for emergencies if needed. And the accounts are not tied to a specific employer, so they go with workers who change jobs.

The money is held in a special Roth I.R.A. and invested in United States Treasury savings bonds paying the same variable interest rate as the Government Securities Fund, which is available to federal employees through the government retirement plan. Over the last five years, the fund's interest rate has averaged 2 percent, Treasury officials said. That is hardly spectacular, but higher than the interest rate on a traditional savings account, they said.

Savers can withdraw their myRA contributions at any time without taxes or penalties. But because the accounts are subject to Roth I.R.A. rules, savers may pay taxes and penalties on the interest earned, if they withdraw their money before age 59½.

Once a saver has contributed the maximum $15,000, or the account has been open for 30 years, it stops earning interest and must be rolled into a private sector Roth I.R.A. to continue growing.

Treasury Secretary Jacob J. Lew said the government was not suggesting that $15,000 was an adequate retirement nest egg. But millions of Americans lack any retirement savings, so they need to begin somewhere, he said. Nearly a third of workers say they have no retirement savings or pension, according to a 2015 report from the Federal Reserve.

"The challenge is to get started in the first place," Mr. Lew said.

Nancy Register, national director of the America Saves campaign, called the program a "terrific" tool to get lower- and moderate-income consumers accustomed to saving.

"We believe this is a needed product," she said.

President Obama first directed the Treasury to establish the myRA program in his January 2014 State of the Union address. Since 2014, the department has worked with a group of 60 employers in a pilot program to develop the account.

Tom Galea, president of Norton's Flowers & Gifts, based in Ypsilanti, Mich., said his company took part in the pilot and found the myRA plan simple to use. Six of his 21 employees participate, with some contributing as little as $5 from their paycheck every two weeks. "It's really a savings training program," he said.

**Q & A**

**¶ Who is eligible for myRA?**
Participants must have taxable compensation to contribute, and fall within Roth I.R.A. income guidelines. For 2015, a single person can make a maximum of $131,000.

**¶ How do I sign up for myRA?**
Go to www.myra.gov and enter the necessary information, including your Social Security number. The website has letters and forms to give to your employer, if you want money deducted from your paycheck. You may contribute earnings from multiple employers to the account.

**¶ Can I fund a myRA account with an income tax refund?**
Yes. You can direct all or part of your federal income tax refund into your myRA account.


MINH UONG/THE NEW YORK TIMES

# High Price of Delivery Apps

**TECHNOLOGY**
BRIAN X. CHEN

When Emily Yang, a San Francisco tech worker, is running out of cat food, she taps an app called Instacart to order a new bag of kibble to be delivered to her door. For dinner, she often orders through Sprig and Munchery, app-powered services that bring fresh organic meals to her home.

A proliferation of instant-delivery apps has turned the smartphone into a sort of magic remote control that can almost beam items straight to your door. But instant gratification has a price. With the delivery apps, tech companies act as a middleman connecting merchants and couriers with customers, and they pass the service charges on to the consumer. The fees are more complex than when you, say, order a pizza.

I tested four popular instant delivery apps to look at their fee structures. My conclusion: Instacart was the worst offender when it came to hiding extra costs in certain transactions. Another service, Postmates, stated its fees clearly, but service costs fluctuated. Two larger companies, Uber and Amazon were more straightforward about what they charge. But little of it was cheap; the cost for the convenience of delivery tended to be a premium of at least 30 percen.

My tests began with Instacart, which bills itself as an easy way to hire a shopper to pick up groceries and deliver them to your door within a day. I found some price differences: Many Costco items inside the Instacart app were inflated by at least 20 percent.

Instacart states upfront that it has markups for some stores, including Costco, which has a membership fee for its customers. But the app neglects to show the actual retail cost of each item compared with the markup. Other costs included a $4 delivery fee, plus a tip.

**Convenience comes with costs that can be complex.**

Postmates summons a courier to buy and deliver different items. It is more transparent than Instacart, but its delivery fees vary depending on the distance between pickup and drop-off. If consumer demand is high, fees rise accordingly.

The fees can also change depending on the merchant, with a lower delivery fee for those in formal partnerships with Postmates.

A Postmates order of two pizzas was $54.79, including $36.34 for the pizzas, a $7.50 delivery fee, a 5 percent service fee and my addition of a 20 percent tip. That's 50 percent more than a pickup order.

Another recent fast-delivery app is UberEats, an addition to the ride-hailing Uber app. I was shocked that within a minute of my ordering a burrito, a driver arrived. UberEats offers a small selection of food items prepared by certain restaurants each day. In other words, my Uber driver was driving around town with a huge crate of the same burrito.

My total bill for the burrito was $10.88, just what the merchant charges in its restaurant.

For a fourth experiment, I ordered a bag of cat food and dog treats with Amazon's new instant delivery service, Prime Now. For this service, the costs were clear: You have to be a Prime member, which costs $99 a year. If you want an order delivered within an hour, you pay an $8 fee; Amazon generally recommends a $5 tip. My $34.53 order of pet food added up to $51.24 after tax, tip and service were included; Prime Now fees added 48 percent to my cost.

# Start Listening and Enhance Your Reputation as an Adviser

**SKETCH GUY**
CARL RICHARDS

The key to getting people to think you're smart is to stop talking and to start listening. Let me share a story to demonstrate.

Recently, I attended a dinner party with my friend and colleague Dan Solin. Dan was sitting across from a management consultant. During most of the dinner, they were engaged in an animated discussion. I couldn't help but notice that Dan asked thoughtful questions, one after the other. At the end of the evening, the consultant asked Dan if they could connect on LinkedIn. Dan couldn't resist asking one more question. "That would be great, but tell me why you want to connect?"

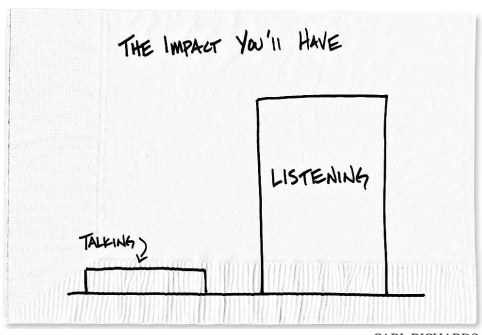
The consultant replied, "I just found you so insightful."

Dan said almost nothing and came across as insightful. This exchange was the most recent example of what seems like a ninja trick. It turns out that science backs up the idea that the best way to get people to like and trust you is to listen to them.

A recent study from Harvard proved that we love to talk about ourselves. Jason Mitchell, a Harvard neuroscientist, and Diana Tamir, a psychology graduate student, revealed that "we will often go to comic lengths to avoid talking about others and to keep the focus" on us. At the same time, talking about ourselves lights up the areas of our brain "associated with food, money and sex."

I've been practicing listening and asking questions. As the research demonstrates, the result is predictable. In fact, I experienced it again when someone at a conference asked for some advice. I said I'd be happy to help, and we found a quiet corner to chat. She explained the problem, and as soon as she finished, my first instinct was to dive in and answer the question.

But I took a deep breath and remembered my ninja training. I said: "It sounds like you've thought a lot about this issue. What do you think about your options?" With every answer, I asked another question.




CARL RICHARDS

After about 20 minutes, she said: "Oh my gosh, Carl. I've had a breakthrough. I now understand exactly what I need to do. Thank you!"

I had offered this woman no advice. But she left the conversation with the answer she sought and the idea that I helped her find it.

So I have a challenge for you this week. At some point, you'll meet someone new or someone will ask you for advice or feedback. Be intensely curious. Listen with the goal of understanding. See what an impact you can have on the world by closing your mouth and opening your ears and heart.