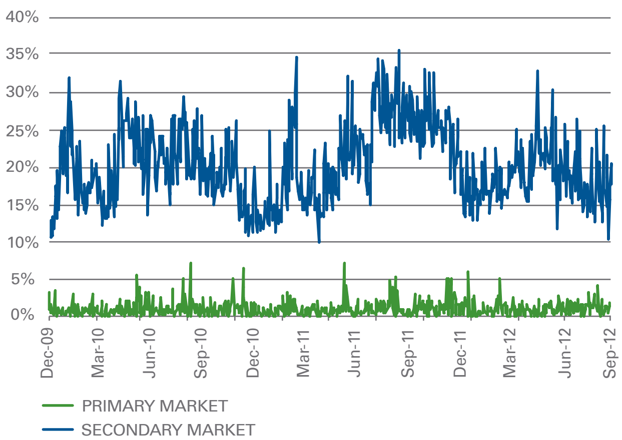
SPDR® UNIVERSITY

Fact or Fiction:
Do ETFs Have a Significant Impact on Equity Market Volumes?

As market participants continue to weigh the potential impact that ETFs have had on the market over the past few years, they have increasingly focused on the fact that ETFs comprise a significant portion of equity market volume.

Looking at the volume of the world's largest and most liquid ETF—the SPDR® S&P 500® ETF (SPY)—provides an example of the impact ETFs have on overall market volume. Since the beginning of 2010, SPY has comprised an average of approximately 20% of NYSE volume. Figure 1 illustrates that on certain days SPY comprises over 30% of NYSE volume, with the highest being close to 36%. Since SPY seeks to offer investors liquid, cost effective and transparent access to the S&P 500 Index, this may not be surprising. However, some have speculated that this significant secondary market volume is detrimental to the health of the underlying volume for the shares of the individual securities that comprise the fund. In other words, the concern is that the ETF is now setting the price for the underlying securities, and not the market itself.

FIGURE 1: SPY VOLUME AS A % OF NYSE VOLUME



Source: Bloomberg, L.P., SSgA, as of 9/30/2012.

In order to understand if this is the case, investors need to look not only at the secondary market volume where ETFs are bought and sold on the exchange by investors, but also at the primary market volume where ETFs are created by market makers. It's important to remember that due to the unique creation/redemption process of ETFs, not every ETF trade, even one of large size, facilitates a trade in the underlying securities. In fact, even with SPY's prominence in the market, only a small portion of trades on the secondary market end up constituting trades in the underlying securities. This is because ETF shares that are traded in the secondary market are backed by stocks already held by the ETF. For more information on the creation/redemption process, you can access the article *How ETFs Are Created and Redeemed* on www.etffactorfiction.com. On average, since the beginning of 2010, the absolute volume of SPY creation and redemptions in the primary market was approximately 1% of NYSE volume. The maximum value reached over this period was 7%, which was on a day that SPY experienced a significant amount of creations.

To take the analysis a step further there is only a small positive correlation between primary market volume and secondary market volume. In other words, when the data is analyzed there is no synchronicity between creation and redemptions in SPY and secondary market volume. Therefore, the secondary market volume does not increase every time the primary market volume increases. This may indicate that there is already enough availability of SPY shares in the secondary market to facilitate market demand. In turn, the amount of secondary market volume does not have an impact on the underlying securities of the ETF. It may also indicate that the existence of an ETF—even one as large as SPY—does not have the potential to impact the price of its underlying securities to any major degree. This is emphasized further by the fact that assets in SPY constitute less than 1% of the total market capitalization of S&P 500 companies. In other words, SPY has certainly grown tremendously over the years, but it is minuscule compared to the overall market for US large cap equity securities.

Despite the rapid growth of ETFs and the expanded use of this vehicle by investors around the world, ETFs only comprise a small percentage of equity market volumes. By examining the data from this case study and by fully understanding how ETFs are structured and traded, investors can better understand why ETFs have a minimal impact on primary market volume.

SPDR UNIVERSITY

ABOUT SPDR® ETFS

SPDR ETFs are a comprehensive fund family of over 100 ETFs, spanning an array of international and domestic asset classes. Offered by State Street Global Advisors, SPDR ETFs provide investors with the flexibility to select investments that are precisely aligned to their investment strategy. Recognized as the industry pioneer, State Street created the first ETF in 1993 (SPDR S&P 500® – Ticker SPY). Since then, we've sustained our place as an industry innovator through the introduction of many ground-breaking products, including first-to-market launches with gold, international real estate, international fixed income and sector ETFs.

For information about our ETF family, visit www.spdrs.com

INDEX DEFINITIONS

S&P 500® INDEX

The S&P 500 Index is composed of 500 selected stocks, all of which are listed on the Exchange, the NYSE or NASDAQ, and spans over 24 separate industry groups. Since 1968, the S&P 500 Index has been a component of the US Commerce Department's list of Leading Indicators that track key sectors of the US economy. Current information regarding the market value of the S&P 500 Index is available from market information services.

STATE STREET GLOBAL ADVISORS
State Street Financial Center
One Lincoln Street
Boston, MA 02111

866.787.2257

FOR PUBLIC USE.

IMPORTANT RISK INFORMATION

ETFs trade like stocks, fluctuate in market value and may trade at prices above or below the ETFs' net asset value. Brokerage commissions and ETF expenses will reduce returns.

While the shares of ETFs are tradable on secondary markets, they may not readily trade in all market conditions and may trade at significant discounts in periods of market stress.

Risk associated with equity investing include stock values which may fluctuate in response to the activities of individual companies and general market and economic conditions.

There can be no assurance that a liquid market will be maintained for ETF shares.

Frequent trading of ETF could significantly increase commissions and other costs such that they may offset any savings from low fees or costs.

"SPDR" is a registered trademark of Standard & Poor's Financial Services LLC ("S&P") and has been licensed for use by State Street Corporation. STANDARD & POOR'S, S&P and S&P 500 are registered trademarks of Standard & Poor's Financial Services LLC. No financial product offered by State Street Corporation or its affiliates is sponsored, endorsed, sold or promoted by S&P or its affiliates, and S&P and its affiliates make no representation, warranty or condition regarding the advisability of buying, selling or holding units/shares in such products. Further limitations and important information that could affect investors' rights are described in the prospectus for the applicable product.

Distributor: State Street Global Markets, LLC, member FINRA, SIPC, a wholly owned subsidiary of State Street Corporation. References to State Street may include State Street Corporation and its affiliates. Certain State Street affiliates provide services and receive fees from the SPDR ETFs. ALPS Distributors, Inc., a registered broker-dealer, is distributor for SPDR® S&P 500®, SPDR® S&P MidCap 400® and SPDR® Dow Jones Industrial Average, all unit investment trusts, and Select Sector SPDRs. ALPS Distributors, Inc. is not affiliated with State Street Global Markets, LLC.

Before investing, consider the funds' investment objectives, risks, charges and expenses. To obtain a prospectus or summary prospectus which contains this and other information, call 866.787.2257 or visit www.spdrs.com. Read it carefully.

 ID1941-IBG-7537 Exp. Date: 12/31/2013 IBG.EDU.ETFEMV.1212 SPD000488