

Exchange Traded Funds (ETFs)

WNCC Financial SIG

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- What are ETFs?
- How do ETFs vary from mutual funds?
- What are the advantages and disadvantages of ETFs?
- What sources of ETF information are available using our computers and the internet?

What are ETFs?

- ETFs are baskets of securities that are traded, like individual stocks, on an exchange.
- Most ETFs charge lower annual expenses than even the least costly index mutual funds.
- Most current ETFs are passively managed, and track a wide variety of sector-specific, country-specific, and broad-market indexes.

How do ETFs vary from mutual funds?

- ETFs must be purchased and sold through a brokerage account (which results in paying commissions for both purchases and sales)
- ETFs can be bought and sold throughout the trading day
- Unlike regular mutual funds, ETFs do not necessarily trade at the net asset values of their underlying holdings. Instead, the market price of an ETF is determined by forces of supply and demand for the ETF shares. As a result, the potential exists for ETFs to trade at prices above or below the value of their underlying portfolios.

What are the advantages of ETFs compared to mutual funds?

- Annual expense ratios of ETFs are considerably lower than traditional mutual funds.
- ETFs can be traded throughout the trading day.
- ETFs are more tax efficient.
- ETFs avoid annual fees charged by many mutual funds for small investments.
- There are ETFs that address specific sub sectors of the market that regular mutual funds do not.

What are the disadvantages of ETFs compared to mutual funds?

- ETFs cost advantage isn't always as large as it might seem.
- Frequent trading costs can quickly add up, particularly if you invest regular sums of money over time.

Sources of ETF information

- American Stock Exchange (www.amex.com)
- New York Stock Exchange/Euronext (www.nyse.com)
- Claymore Securities (www.claymore.com)
- First Trust Portfolios, L.P. (www.ftportfolios.com)
- iShares/Barclays (www.ishares.com)
- Invesco PowerShares (www.invescopowershares.com)
- ProShares (www.proshares.com)
- Rydex Investments (www.rydexfunds.com)
- Select Sector SPDRs (www.sectorspdr.com)
- State Street Global Advisors SPDRs (www.statestreetspdrs.com)
- Vanguard (www.vanguard.com)
- Wisdom Tree (www.wisdomtree.com)
- Morningstar (www.morningstar.com)
- Yahoo Finance (www.finance.yahoo.com)
- Google Finance (www.finance.google.com)