

The Basics of Exchange Traded Funds



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FINANCIAL VIEW

What exactly are Exchange Traded Funds? Perhaps you've heard of them but do you know what they are and why they are growing in popularity? I've decided to focus this month's Financial View on Exchange Traded Funds, or ETFs as they are more commonly known, because you might want to consider adding this type of investment to your portfolio.

ETFs are similar to mutual funds with some very distinct differences. The most obvious difference is that an ETF is listed and traded on a stock exchange and can be bought or sold directly during trading hours, much like a stock.

An ETF is a basket of securities which may consist of stocks, bonds, or other assets such as commodities. ETFs offer many attractive features and benefits for investors. These include lower costs, portfolio transparency, investment flexibility, liquidity, diversification and tax efficiency.

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ETFs tend to charge lower management fees and expenses (i.e., commission fees and trading costs) than many other diversified investment options. That means more of your money is working for you over the long term.

The current trading price of an ETF can be viewed at any time during a regular trading day and its portfolio holdings can be viewed daily. This can be particularly helpful during volatile investment markets.

With a goal to mirror a specific index or market return, ETFs tend to represent securities that make up that index. As a result, price volatility can be reduced, especially when compared to individual securities.

Finally, when investing outside a tax-sheltered account, ETFs can have greater tax efficiency. That's because ETFs tend to have low portfolio turnover and fewer realizations of capital gains and losses than other investment products.

Exchange Traded Funds are not for everyone, and only fully licensed, full service investment advisors can recommend and/or purchase these products for investors.

To discuss this article or to arrange a free no obligation review of your portfolio and retirement plans, please contact me at larry.gallant@queensbury.com, visit my website at ww.gallantfinancial.ca or call 905-892-2100.

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