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THE INVESTMENT EXPERTS

# All About Exchange Traded Funds

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**Exchange-traded funds (ETFs) were introduced in our financial industry in 1993.**

Since then, it has been boosted by the increase in demand among investors looking for an alternative to mutual funds.

**ETFs are baskets of assets that track indices and can be exchanged on the stock exchange market similarly to shares.** Mutual funds and ETFs are similar, however, mutual funds cannot be exchanged on a stock exchange. An ETF can be created to track anything, from the price of a single commodity to a big and diverse collection of securities. It can even be designed to follow particular investment approaches. Considering that an ETF can be traded on the stock exchange market means that the price of the security changes every day. They often follow indexes like the Nasdaq, S&P 500, Dow Jones, and many others.

**Unlike trading one stock,** the advantage of an ETF is that you can trade multiple assets at once, therefore making it an easier option for diversification. Shares, commodities, and bonds are just a few of the investment categories that may be found in ETFs; some offer assets that are exclusively available in one particular country, while others are global. For example, an information technology ETF would contain stocks of various information technology companies across the industry. The ability to diversify across different industries, reducing the risk of running a loss when one particular industry faces a challenging phase. The fact that they can be traded daily on the stock exchange makes them more liquid and cost-effective. This makes it possible for you to monitor your investments carefully.

**As much as there are many good reasons for having an ETF there are also a few disadvantages like the risk of the fund being closed if it does not make enough to cover administrative costs.** The major drawback of a closed ETF is that investors are forced to sell sooner than they have anticipated and possibly at a loss. In addition, reinvesting that money will be a hassle, and there's a chance of an unexpected tax burden. If the ETFs are not traded frequently, it could cause liquidity problems as they become harder to unload. Furthermore, although some of the ETFs will have a commission, some might come at a cost if a broker decides to charge a commission.

**ETFs may be classified as either passive or actively managed.** The objective of passive ETFs is to mirror the performance of a larger index, whether it be a more specialised sector or trend or a more diversified index like the S&P 500. ETFs that are actively managed often do not follow an index of securities but instead, let their portfolio managers choose which equities to own. Although actively managed ETFs may be more expensive for investors, these funds offer advantages over passive ETFs and the cost is worth it.

**If you are the type of investor with extensive knowledge of ETFs and you would have time to do more research,** accessing such funds can be as easy as using online investor platforms like Easy Equities or trading directly on the Johannesburg Stock Exchange. Another way to have access is through product providers that offer investments with underlying funds that comprise ETFs like Satrix, Momentum, Global Asset Managers, Stanlib etc.

**One could opt to include an ETF in their portfolio for a variety of reasons,** including liquidity, diversification, and transparency. Additionally, just as with any investment, the choice of the underlying funds that make up an ETF will depend on the investor's time horizon, investment strategy, and desired outcome.

Sources:

[Investopedia](#)

[nerdwallet](#)

## Contact Us

### Global & Local

The Investment Experts

18th Floor Metalbox, 25 Owl Street,  
Auckland Park, Johannesburg, 2092

T | +27 11 486 2500

[info@globallocal.co.za](mailto:info@globallocal.co.za)  
[www.globallocal.co.za](http://www.globallocal.co.za)

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