# 5 Powerful Reasons to Invest in ETF’s

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## Exchange Traded Funds (ETF), have become increasingly popular.

ETF’s have some significant advantages over traditional mutual funds.  There is also one significant disadvantage that weighs heavily on my decision making for a client.

ETFs are similar to index mutual funds. Index mutual funds and ETFs try to duplicate the holdings. Within a specific index or benchmark. In an attempt to replicate the performance of that index. The main difference between ETFs and mutual funds (including index mutual funds). *ETFs are traded and priced throughout the trading day like stocks*. Mutual funds (including index funds) are only priced once per day. At the end of the trading day when the market closes.

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1. One big advantage for ETFs is that they are much cheaper than actively managed mutual funds. This is because they are computer driven models running the investments rather than a highly paid investment managerial team. That means they don’t have extra head win that comes from that managerail expense to overcome on their performance numbers. One of the big complaints about mutual funds is that management, operating fees, and even commissions.
2. Lower investment turnover (buying and selling of holdings). This helps keep costs down.
3. Intraday trading for ETF’s. Mutual funds are priced and bought sold only one time at the end of the trading session. That means if you put a sell order in for your mutual fund in the morning you do not know the price until the market close. If your the market where your fund invests drops after you put in the trade order you are stuck with that day’s closing price. With an ETF, it trades like a stock and you get the price as soon as a

buyer or seller is fund for your order,usually within seconds of your order.

4. ETFs are more tax efficient than mutual funds. (Not necessarily more than a Tax Managed Portfolio). Largely because of their low turnover. The unique structure of ETFs enables investors trading large volumes to get in-kind redemptions. This means that an investor trading large volumes of ETFs. They can redeem them for the shares of stocks that the ETFs track. This arrangement minimizes tax implications. For the investor exchanging the ETFs. Since the investor can defer most taxes until the investment is sold.
5. More and more interesting investment portfolios are being made available to investors including niche investments and alternative assets classes that can add diversity to your portfolio.

## What's not to like?

Most ETF's and Index Funds are made to be fully invested. To match their appropriate benchmark.  This inexpensive, brainless investment tends to shine in up markets. What happens when their asset class is sinking?  They sink 100%. As much as their benchmark with no mechanism to shield investors from losses.  Unlike most mutual funds they can't sell positions and take cover when bad news strikes.  This does not sit well with conservative investors.

Seeing the statistics and this is true during many periods of time and for several different asset classes.  It is especially hard for managers of blue chip stocks. And those that manage multi-billion dollar mutual funds to beat their index benchmark.  The biggest reason for this is that mutual fund managers typically keep 3-5% of their money. Cash is needed to meet redemption's or as a defensive holding. Therefore, if a mutual fund is not fully (100%) in the market. It would be likely to trail an index. If  zero cash and was fully invested during a rising stock market. ETF's have no human brain or ability to choose which investments to give a higher or lower portfolio weight toward.