

ETFs, mutual funds' different features



Q: Which is better, Exchange Traded Funds or Mutual Funds?

A: The financial industry has a multitude of tools available, all with distinct features and risks. Recently the popularity of exchange traded funds, or ETFs, has exploded. These baskets of securities hold assets that include stocks, commodities, real estate and bonds. All can be purchased for one low trading fee.

Exchange traded funds are priced throughout the trading day. Most are indexed and are often programmed to mechanically buy and sell.

ETF's have been created to track just about any region, country, sector, currency or industry. An investor can buy an index for the S&P 500 or a Biotech Bull 3x Shares ETF. There is also an ETF of ETFs and it can be purchased on margin using limit and stop-loss orders.

The ticker symbols look and trade like stocks and don't have a closing value (NAV) calculated at the end of every day like open ended mutual funds.

Many ETFs have low costs and are tax efficient. Just like index mutual funds.

Settlement is only a day for Mutual funds. ETFs take three days.

Mutual funds don't charge transaction fees for systematically saving or dollar cost averaging. Same deal applies to systematic withdrawals.

ETFs generally track their underlying index fairly well, but technical issues can cause discrepancies. This happened in August of 2015 when the Dow Jones suffered its largest-ever intraday decline. The disruption was short lived, but ETFs traded at large discounts to the underlying securities.

This event was set off by volatility in Asia overnight that caused US investors to panic and place aggressive sell orders. The NYSE invoked rule 48 and suspended the requirement of stock prices to be announced at market open. (Rule 48 only applies to stocks, not ETFs.) Trading halts can occur when stock prices move too quickly and 78% of the total halts that day were ETFs.

Define your objective. Mutual Funds and ETFs have different features. Investigate the fund before investing. Consider all the factors. What does the fund hold, how much does it cost, can I sell it when I want my money back; all good questions that deserve answers.

Be sure that you are using the best tool to achieve your investment goals.

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