



# What is an Exchange-traded fund (ETF)?

ETFs are flexible investment vehicles that can be used within a portfolio in many ways to meet different investment needs and objectives.

Similar to a mutual fund, an ETF is a pooled investment vehicle that owns the underlying assets (stocks, bonds, commodities, currencies) and divides ownership of those assets into shares. Unlike a mutual fund that can only be bought or sold directly with the mutual fund company at the end of the day at net asset value, an ETF can be bought or sold throughout the trading day like a stock on a stock exchange at the prevailing market price.

## Types of ETFs

ETFs initially caught the attention of investors as an efficient investment vehicle for gaining access to broad passively managed equity indices such as the S&P/TSX 60, S&P 500, and MSCI EAFE. Over time they have evolved to track all the major investment categories, sub-categories, industries and sectors, providing investors the ability to use them in multiple ways in a portfolio.

## What are the benefits of an ETF?

ETFs can play an essential role in an investor's overall investment strategy as they offer numerous benefits including:

- **Diversification:**  
ETFs can provide exposure to various asset classes such as equities or fixed income and a broad range of sectors and geographic regions including commodities or emerging markets.
- **Transparency:**  
Investors can generally see the portfolio composition of an ETF at any time as current holdings are available daily.
- **Liquidity:**  
ETFs are listed on the stock exchange and can be bought or sold throughout the trading day.
- **Cost:**  
Management expense ratios (MERs) for ETFs are generally lower than other investment solutions. However, it is important to remember that transaction costs (i.e. stock commissions) are incurred for every buy or sell, and advisor compensation, if any, is extra.

Investors who are considering adding one or more ETFs to their portfolio should first take a careful look at their own situation, investment style, knowledge level and time horizon to determine whether an ETF fits their overall investment strategy.

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