Investment Advice – Why You Should Start Investing In Exchange Traded Funds Today

By Joel Teo

Exchange Traded Funds (ETFs) are the rage today with many investors flocking to purchase them as opposed to the usual mutual funds. ETFs work in this way. The fund manager decides that he wants to mimick the returns of the NASDAQ so he just buys all the stocks that make up the index and then he sells shares in this fund to investors. This means that you have effectively diversified your risk when compared to another investor who buys and individual share. There are three related reasons why there has been an upsurge in recent years in the number of fund managers setting up these funds.

Low Cost

The first reason would be the relative low cost that works both ways. Since we are not stock picking, the fund manager needs just to set up software to ensure that the fund accurately mimics the stock holdings of the index. Some shares have a greater representation in the index than others by virtue of their large clout and number of shares issued in the market and the fund has to respond to that.

The other way the cost factor kicks in is that many investors today are happy and delighted to find an investment options that is cheap in terms of fees. Since the fund manager does very little monitoring or research for this fund, its really cheap to purchase this monthly and this makes a very good investment for the retail investor.

Defensive Investing

Benjamin Graham the value investing guru advocated the concept of defensive investing in an Exchange Traded Fund in his book “The Intelligent Investor”. In that book he did back calculations back to the days of the Great Depression and if you invested monthly since then, your average return would be 33% on average and its not bad considering the fact that you did not have to spend time wondering whether the index was up or down or whether your latest stock pick was in the money or not. Just buy a small amount monthly whether the stock market is up or down and use it as a rainy day fund that you can rapidly liquidate for ready cash. The reason why this is called defensive investing is that you do not have to spend time actively picking and most investors whether professional or retail lose money actively picking stocks and ETFs remedy this problem by sure probability and mathematical statistics.

Plurality of options

ETFs today are flooding the market with each of the top fund houses in New York setting up new and more fanciful financial baskets each day. Today there is a great plurality of funds that you can purchase from Tech ETFs to Banking ETFs to Energy ETFs and so you have no shortage of options. If you are optimistic on a certain sector and do not want to waste you energy and time picking the right company actively, ETFs with their current plurality of options is the great key to diversified investing in a particular sector. The time saved scrutinising financial data which is often padded up is not worth the effort some times when there is great intrinsic fraud like Enron and WorldComm.

In conclusion, ETFs today represent a cheap, effective way for you to do defensive investing and with that part of your money relatively secured, you can then spend some of your money doing active stock picking if you are so inclined. Take some effort this week to research into this financial instrument and you may find the returns better then your fund manager in the longer term (when averaged over time by virtue of statistical probability).

Joel Teo writes on various financial topics relating to Ahwatukee Real Estate Investment. Signup for his free online Real Estate Investing newsletter today and gain access to the “Six Day Real Estate Investment Profits Course” now at http://www.realestateinvestment101.info/Ahwatukee.html

Investing Advice: 5 Benefits Of Etfs

By Pat Regan

When people ask for investing advice, ETFs usually come up pretty quickly, because they are so heavily marketed and trumped by the industry. Exchange-traded funds, or ETFs, are an easy way to diversify a small investment, but to get the most out of your investment, it is important to understand how they operate.

ETFs are like mutual funds, in that they are a collection of investments, but they are traded on an exchange, such as the NYSE, instead of purchased directly from the issuing company. They also differ in their redemption structure and tax efficiency from traditional mutual funds.

Here are five benefits of ETFs over mutual funds:

1. Tax Efficiency: Upon redemption, mutual funds must sell its underlying securities, and the capital gains are then distributed to the owners of the funds. Since ETFs trade on an exchange and investors are selling to other investors, no underlying securities are sold, and no capital gains are distributed. If the makeup of the ETF changes it will, occasionally have to distribute gains, but it should be less frequent than with traditional mutual funds.

2. Lower Fees: ETFs are no-load funds, and you won't be slapped with a redemption fee when it's time to liquidate your position. Further, ETFs typically have lower annual fees than traditional Mutual Funds, making them an attractive alternative. (NOTE: In rare cases where a very small amount is being traded, broker's fees may be a higher percentage of the investment than a mutual fund's expenses would be, but in most of these cases the invested amount would not meet the minimum investment required by most mutual funds).

3. Liquidity: The exchange-traded structure of ETFs generally allow for liquidation of a position faster than a mutual fund, which must be liquidated at end of day. Further, the ability to set a limit order allows flexible trading that no investor could get from a mutual fund. Not all ETFs have the same liquidity, however, and it is important to review trading volumes and the ETF prospectus to determine whether you are comfortable with the frequency of trades.

4. Intraday Pricing: Because ETFs are traded on active stock exchanges, purchases and sales happen at market prices, rather than end-of-day Net Asset Value, which mutual funds use. As a result, one may purchase ETFs at a premium or a discount to the value of the underlying assets, and arbitrage is frequent.

5. No Minimum Investment: When starting investing, diversification can be cost prohibitive if you're using traditional mutual funds, which frequently have a minimum investment of $2500 or more. Because ETFs have no minimum investment (other than the market price of one share), they are a good vehicle for diversified investing.

Of course, many of these benefits could be liabilities if not used properly. For instance, the intraday pricing feature of ETFs could lead an investor to buy an ETF at a premium or sell it at a discount to the value of the underlying securities. Also, brokerage fees may have a greater impact on some investors than traditional mutual funds' management fees and loads would have.

Used wisely, ETFs can be a good vehicle for widely diversifying a small or initial investment, but it is always best to seek professional investing advice.

In the future I will cover the five negatives of investing in ETFs.

Pat Regan is the publisher of an http://www.stocksandmutualfunds.com/index.html website.

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