

EXCHANGE TRADED FUNDS



vEcoSys

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Recent data has shown that India's gold collection under exchange-traded funds rose 25.7 percent on year to 7.049 tonnes in October, when the yellow metal touched new record highs.

But what do 'Exchange Traded Funds' mean?

Let me try to explain this term & its various constituents to you in the next few slides...



**Understanding
Exchange Traded Funds
– By Prof. *Simply Simple*™**



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An exchange-traded fund (or ETF) is an investment vehicle traded on stock exchanges, much like stocks.

An ETF holds assets such as stocks or bonds and trades at approximately the same price as the net asset value of its underlying assets over the course of the trading day.

Most ETFs track an index, such as the S&P 500 or MSCI EAFE.



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Now...

- **ETFs are close cousins of mutual funds. In many respects, ETFs work like mutual funds.**
 - **For instance, an ETF may provide you with an opportunity to invest in a basket of stocks that reflects an index just like an index-based mutual fund**
 - **Or you may find an ETF that represents a basket of stocks consisting of a particular sector just like a sector-specific mutual fund**
 - **Or an ETF based on a specific commodity such as gold just like any gold-oriented mutual fund.**

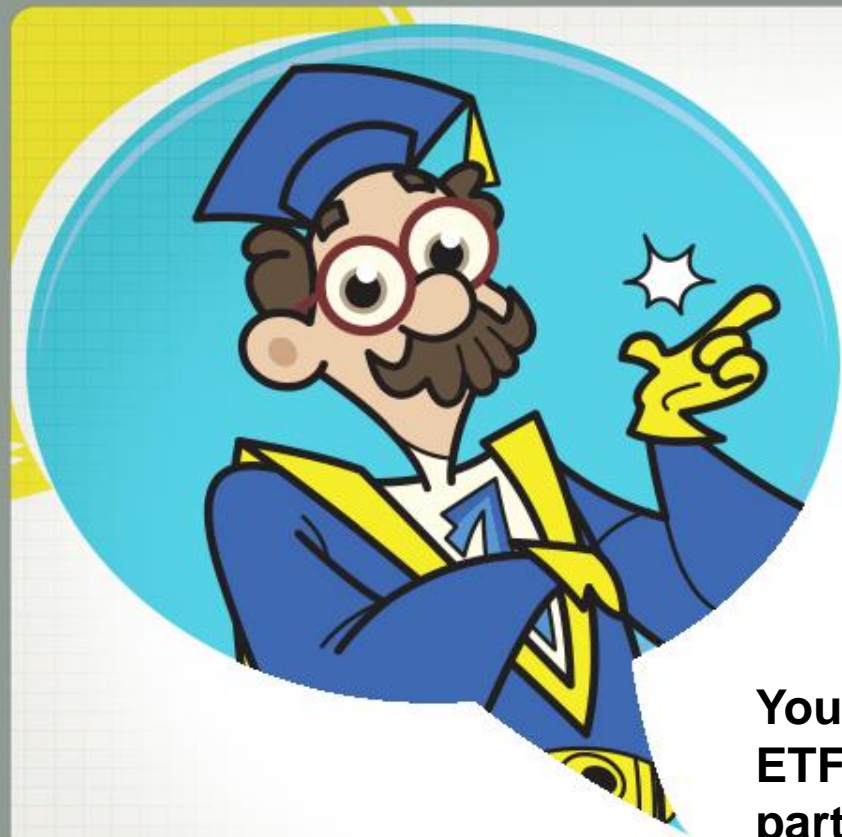


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Players like Pollard, Chris Gayle, Shane Watson, Dale Steyn comprise a bunch of high quality-higher priced players. They are priced higher at the auction but team owners are willing to pay a high price as these cricketers have proven themselves under different conditions and are expected to perform well. Not much research needs to be done about them because they are already champion cricketers.



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You can make investments in an ETF by buying shares of that particular ETF, which gives you an opportunity to make an 'indirect' investment in the basket of stocks or commodities constituting that particular ETF.



**But, you may ask,
why is it called indirect?**



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- ❑ That's because you do not directly own stocks of any company.
- ❑ You just own shares of the ETF which, in turn, holds shares of different companies as your trustee. Investment in just one share of an ETF can give you exposure to an index or a particular sector.
- ❑ So, if you are investing in a share of an ETF representing a stock market index, then your return would depend upon the rise or fall of that particular index.



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Similarly...

- ❑ If you are investing in a share of an ETF representing gold, then your return would depend upon the rise or fall in the price of gold.
- ❑ You should keep in mind that investments in ETFs, in many respects, look like investments in mutual funds but, despite many similarities, ETFs and mutual funds are not one and the same thing.
- ❑ So how are they different?



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- ❑ Mutual funds offer either open-end or closed-end schemes.
- ❑ ETFs differ from both open-end and closed-end mutual funds in many ways.
- ❑ For example, the shares of ETFs are listed on the stock exchanges, which you can trade at any time, just like any other stock.
- ❑ But the units of open-end mutual funds are not listed on the stock exchanges. Such units can only be redeemed at the end of the day at their net asset value, or NAV, as disclosed by the mutual fund.
- ❑ But what about closed-end funds? Sometimes, their units are listed on stock exchanges...



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That's true... but here's the difference!

- ❑ **ETF shares are, in many ways, traded like any other stock listed on stock exchanges.**
- ❑ **But closed-end funds sometimes trade at a premium to their present NAV and sometimes they trade at a discount, which means that the trading prices may not be fully aligned with their actual worth.**
- ❑ **Shares of ETFs, however, trade at a price closer to the price of stocks or commodities represented by them.**



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To Sum Up

- ❑ **What:** ETFs provide opportunities for indirect investments in a basket of stocks or a commodity
- ❑ **How:** The shares of ETFs represent fractional interest in a basket of stocks or a commodity which that particular ETF holds as a trustee
- ❑ **Why:** ETFs are becoming popular because they can be traded like stocks at a lower transaction cost while retaining most of the benefits of mutual funds



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Hope you have now
understood the concept of
Exchange Traded Funds

Thinking of Investment

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read all scheme related documents carefully.**

