

## Understanding Exchange-Traded Funds

Exchange-traded funds (ETFs) have become a popular way for investors to put their money to work. ETFs are pooled investment securities like mutual funds. But while mutual funds move once daily after the market closes, the price of ETFs fluctuate throughout the day, and they are listed and traded on exchanges, much like stocks.

Between mutual funds and equities, some investors consider ETFs the best of both worlds.

There are several types of ETFs investors can choose from when building their portfolios.

- **Passive funds** work to follow an index. For example, some popular ETFs track the S&P 500 or Nasdaq Composite. The managers of these funds are not trying to pick stocks based on their beliefs, but simply ensuring the basket mimics the index.
- **Active funds**, on the other hand, actively seek to outperform an index. Managers of these ETFs add investments that they think will perform best in the moment.
- **Bond ETFs** are utilized by investors who want access to fixed income assets without buying these securities individually. The funds are a pool of bonds that an investor gains exposure to when they buy the ETF.
- **Commodity funds** give investors exposure to a commodity without physically taking ownership of the item. For example, gold ETFs provide access to the perennial safe haven without actually buying a bullion.
- **Crypto ETFs** are a new entrant to the space. Spot Bitcoin ETFs were approved in early 2024, allowing investors access to the cryptocurrency's price movement without setting up a digital wallet. Ethereum ETFs recently received approval as well.

When deciding how to add ETFs to a portfolio, investors should be sure to carefully evaluate the type and structure of the fund against their individual goals and risk tolerance. It's also important to be mindful of the expenses associated with ETFs. Fees can vary vastly fund-to-fund, from fractions of a percent to 2% or 3% annually.

With thousands of ETFs available, this investment vehicle can feel overwhelming for those trying to put their cash to work. For investors still wondering which funds are right for them, it may be worth speaking with a financial advisor to ensure the best decision is made.