Understanding ETFs

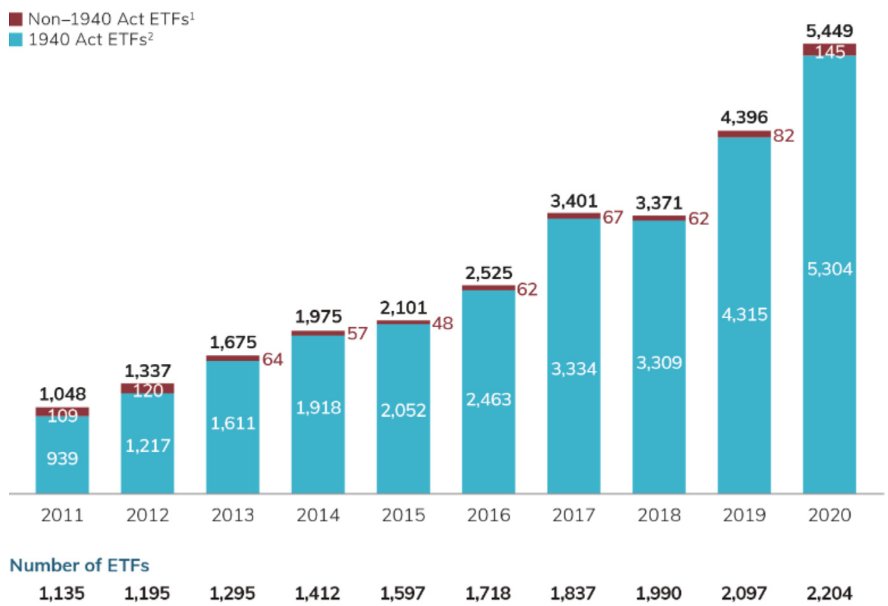
First Ascent Asset Management

What Are ETFs?

Like mutual funds, exchange traded funds ("ETFs") are professionally managed, diversified portfolios of stocks, bonds, or other assets. Although they are both managed pools of assets, there are important differences between ETFs and mutual funds, some of which are identified below.

The first ETF debuted in 1993. Today there are well over 2,000 ETFs available. About 80% of them are passively managed and 20% are actively managed. There are over $5.4 trillion invested in ETFs.

Total Assets & Number of ETFs
Billions/Year End



Source: Investment Company Institute

What Are the Benefits of ETFs?

Trading. Unlike mutual funds, ETF shares are traded on exchanges, much like shares of stock. That means ETF shares can be bought or sold at any time during the trading day.

Low Cost. ETFs generally have lower operating expenses than those of mutual funds. As a result, ETFs tend to have lower internal expenses and charge lower fees than mutual funds.

Transparency. Most ETFs report their holdings daily. Most mutual funds report their holdings on a quarterly basis. This gives investors greater transparency into the holdings of ETFs.

Tax Efficiency. ETFs are more tax-efficient than mutual funds. Most ETFs avoid generating capital gains during the year, so ETF holders only pay capital gains when they sell their shares.