

## Key Benefits of ETFs:



ETFs offer a range of benefits that can make them an attractive investment option. To help ensure investors own the ETF that best fits their objectives, understanding the benefits of ETFs is key.

### 1. DIVERSIFY YOUR PORTFOLIO:

We've all heard the adage, "Don't put all your eggs in one basket." In an investment context, this advice speaks to the importance of being properly diversified. Diversification can enhance risk-adjusted returns over time, protecting a portfolio against a sharp drop in one holding or asset class.

Exchange traded funds (ETFs) can offer compelling benefits in terms of diversification. From an asset allocation standpoint, owning ETFs can complement and augment the other building blocks of an investor's portfolio—whether that's cash or cash equivalents, individual securities (equities or fixed income), or alternative investments (e.g. private equity).

Meanwhile, exchange traded funds allow for diversification because they offer investors access to such a wide range of stocks and bonds. There are ETFs that seek to track broad market indices, strategies that complete parts of a portfolio such as value, growth, or income, as well as funds that focus on specific countries or sectors. Each investor can buy the mix of ETFs that helps to meet their unique needs and objectives.

### 2. TAX EFFICIENCY:

Returns matter for investors. Fortunately, the way exchange traded funds are designed can help minimize the taxes paid by investors holding the ETF. ETFs can engage in 'in kind' transactions for their underlying securities, which avoid the realization of capital gains. This leads to lower capital gains taxes payable for those who hold an ETF in their portfolio. So, while investors will still realize capital gains for the increase in their purchase price vs. their sale price, trading activity within the ETF likely won't have any tax implications.

### 3. INTRADAY TRADING:

Another advantage of ETFs is that you can buy and sell them throughout the trading day. So, while we don't recommend attempting to time the market, you do have the ability to respond to market changes as they happen. You don't have to wait for the close of trading to know the price you'll receive, either.

Intra-day trading is available for all ETFs, including those that trade less frequently. For those ETFs, which can have more price fluctuations, it is best practice to use a limit order or wait until after the market has been open for an hour or so.

### 4. PRICE EFFICIENCY:

Price matters. Whether you're buying a sweater, a car, or an ETF, you want to feel confident that you won't pay more than something is currently worth, or sell for less than you could get. ETFs have two mechanisms that can contribute to the price efficiency. First, each ETF has one or more designated Authorized Participants (AP). These are typically brokerage firms or other trading companies. Authorized Participants may deal both in a given ETF, as well as that ETF's underlying assets—creating and redeeming units of a fund in the process.

If the market price of an ETF is trading at a discount to its Net Asset Value (NAV)\*, an AP can deliver units of the ETF to the fund's provider, taking the ETF's basket of securities in return. On the flip side, if an ETF is trading at a premium to its NAV, an AP can profit by doing the reverse: Buying securities and delivering them to the fund provider in exchange for ETF units.

A second layer of price efficiency in ETFs arises due to the actions of what are known as Market Makers. Market Makers are trading firms designated to provide liquidity when required. These firms post bid and ask quotes throughout the trading day, giving prospective buyers and sellers the ability to trade in an ETF.

### 5. TRANSPARENCY:

A final key benefit of ETFs is their transparency. In other words, investors know what they're buying and they know what they're selling. ETFs differ in the amount of transparency they provide, but in both cases there is sufficient disclosure for someone to make an informed decision.

Fully transparent ETFs publish their complete list of holdings daily. That means the market knows at the end of each trading day which securities an ETF owns—and exactly how many. Semi-transparent ETFs, on the other hand, shield some level of detail to protect their investment process. To facilitate transparency, these funds publish what is known as an indicative NAV. An indicative NAV tells the market what a fund's underlying holdings are worth.

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