How to Invest in ETFs

Investing Fundamentals

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Exchange-traded funds (ETFs) are popular in the world of investing and one of the basic building blocks of a diversified portfolio. ETFs are appealing to new and veteran investors alike given their potentially low investment costs and built-in diversification. If you're interested in adding ETFs to your portfolio, here are some basics to know before getting started.

What is an ETF?

An ETF is a type of fund containing a collection of investments that can be traded on a stock exchange. A single ETF can hold a variety of bonds (bond ETF), stocks (stock ETF), commodities (commodity ETF) or other types of assets.

As a result of how they're structured, an ETF has diversification built into the fund, which makes it a popular option for investors. For example, when you invest in a stock ETF, you're investing a variety of stocks all at once. An ETF can also include stocks from companies across various industries or sectors, such as energy or technology.

ETFs can even to track certain indices, such as the S&P 500 Index, and since you don't have to buy the underlying assets individually, investing in different types of ETFs could be a time-saving, cost-effective way to build a diversified portfolio.

ETFs are not risk-free but are generally less risky than investing in a single stock or bond because they can help spread risk across a number of investments. With that said, certain ETFs can be concentrated in specific industries or geographies, so some funds may be less diversified than others. If you want to get a better sense of an ETF's level of diversification, read the fund's prospectus.

Are ETFs the same as mutual funds?

ETFs and mutual funds are similar in that they help you invest in a variety of stocks, bonds and other securities. But ETFs are not mutual funds. Here are three key ways these investments differ.

How they are traded: ETFs can be traded on an exchange at any point during the day when the market is open. Mutual funds, on the other hand, are not traded on an exchange. Shares are bought and sold once per day when the market closes. And transactions are done directly through the mutual fund company

Pricing: Because ETFs are traded on an exchange, their share prices can fluctuate throughout the day as shares are bought and sold. With mutual funds, their share prices are based on the fund's net asset value, which is calculated at the end of each trading day

Reporting: Another key difference is with the frequency of reporting when it comes to disclosing a fund's investment holdings. ETFs provide a daily disclosure of their holdings, while mutual funds are only required to report their holdings quarterly

Consult a tax professional if you have any questions. Whether you choose to go with ETFs or mutual funds (or a combination of both) will depend on your personal investing goals and preferences.

What should I consider before investing in an ETF?

With so many types of ETFs to consider, research options to help you avoid taking on more risk than you're comfortable, or unwanted surprises when it comes to costs and fees.

While ETFs provide an affordable way to access a variety of investments, not every ETF is considered "low-cost." For example, actively-managed ETFs tend to have higher fees compared to passively-managed funds.

In addition to understanding costs and risks, here are some other things to review when evaluating ETFs.

Investment philosophy and objectives: A fund's investment philosophy gives you an idea of their overall approach to investing. By understanding the investment strategies at work behind the scenes, you can decide whether their investing style makes sense for you, your risk tolerance and financial goals

Performance: Review important facts, including when the fund was created, and how it has performed over time (under both good and volatile market conditions). In other words, what is the expected return on investment

How can I invest in an ETF?

To invest in ETFs, you need a brokerage account, and how you choose to invest will depend on your personal investing style and preferences.

For example, you could build your own portfolio by handpicking ETFs. Some brokerage firms offer their own proprietary ETFs that are managed by the firm's team of investment professionals.

Or you could take a more hands-off approach and invest in ETFs through an automated investing service, like a robo-advisor. Automated investing uses algorithms to help you choose an appropriate investment strategy and manage your portfolio.

Before making any investment decisions, talk to a financial advisor to see how ETFs can fit into your overall investment strategy.

> We encourage you to reach out to your Goldman Sachs team if you have any questions.