An ETF is a mutual fund that trades on a stock exchange.

It has a ticker symbol, just like a stock. Most ETFs track a specific index or sector of the market. For example the SPY tracks the SP 500, and the XLF tracks the financial sector in the United States. So if you hold the SPY ETF you should expect to earn the same rate of return as the SP 500, minus fees, which are quite low.

*ETF Research*

Like all investments, you should research your ETF carefully. Each ETF has a sponsor, and the sponsor’s website has research and information on the ETF.

You can look up an ETF on Yahoo Finance for a profile and summary of the fund.

*Advantages of ETFs*

* Easy to trade: You can buy and sell shares in an ETF at any point during the trading day. This is unlike an open-ended, regular mutual fund that is bought and sold at a specific price only after the close of the market.
* Low fees: Most ETFs are not actively managed, usually track an index, and therefore have low fees and expenses.
* Tax efficiency: ETFs are more tax efficient than 0pen-ended mutual funds, due to the way they handle fund inflows and outflows.

*Access to different asset classes*

Not only are there stock based ETFs, there are ETFs that are based in bonds and commodities as well. For example if you wanted to own a basket of government bonds, you could buy the “TLT” ETF. Or if you wanted to own gold, you could buy an ETF backed by gold, “GLD”.

*Disadvantages of ETFs*

Hidden leverage: Many ETFs have built-in leverage in the fund to earn extra returns. These should be avoided.