

Exchange-traded funds



Wealth
Management

An exchange-traded fund (ETF) is a portfolio of stocks that tracks an index representing a specific asset class, style, sector, country or region. ETFs combine characteristics of an open-end mutual fund and a stock. Like index mutual funds, ETFs represent a fractional ownership in an underlying portfolio of securities. However, ETF investors do not purchase or redeem shares from the fund based on a price calculated at a single point in the day, after market close. Instead, individuals can buy and sell shares of ETFs intra-day on an exchange, like stocks. The prices of ETFs fluctuate according to changes in their underlying portfolios, and also according to changes in market supply and demand for ETF shares themselves. ETFs offer investors a cost-effective way to buy or sell an interest in a portfolio of bonds or stocks in a single transaction.

Investors find the following characteristics of ETFs most valuable:

- **Tax-efficiency** — In addition to low turnover rates, ETF shareholders enjoy the benefit of buying and selling from one another on an exchange, which negates the need for the fund to sell securities to meet redemption, hence avoiding a taxable event.
- **Low expense ratios** — Most ETFs have low expense ratios, making them a cost effective way to diversify

a portfolio. Investors purchasing and selling those securities will pay a commission, just as they would when purchasing an individual equity.

- **Diverse array of investments** — ETFs can provide access to a wide variety of sectors and indices, while helping investors avoid “single stock risk”. The level of diversification is related to the breadth of the underlying index which the ETF tracks.
- **Ability to invest in an entire market segment** — ETF fund managers may replicate the index the fund tracks by “owning” every security in the index according to its set weighting, or “optimizing” the portfolio by selecting those securities that will track the index as closely as possible without having to own each individual security.
- **Continuous pricing** — ETFs offer the same intra-day liquidity as other securities that trade on major exchanges. The estimated net asset value (NAV) for an ETF's underlying portfolio becomes the price of a basket of stocks repriced on the exchange every 15 seconds.

For years, institutions, foundations and plan sponsors have implemented successful strategies that combine active and index investments. The evolution of the ETF marketplace has offered individual investors the same sophisticated instruments, allowing them to actively manage mutual funds and separate accounts with ETFs to better calibrate a portfolio's total risk. This blended strategy provides a way to allow investors exposure to broad segments of the market through indexing, while selectively layering actively managed strategies over the portfolio, benefiting from the value, or “alpha” that the active management brings to the portfolio, beyond typical index returns.

To find out more about exchange traded funds, please call your RBC Wealth Management financial advisor today.

Additional considerations

Historical fund performance does not guarantee the same results in the future. Principal value, share prices and investment returns fluctuate with market conditions. Your investment may be worth more or less than your original cost when you redeem your shares.

Non-deposit investment products: • Not FDIC insured • Not bank guaranteed • May lose value