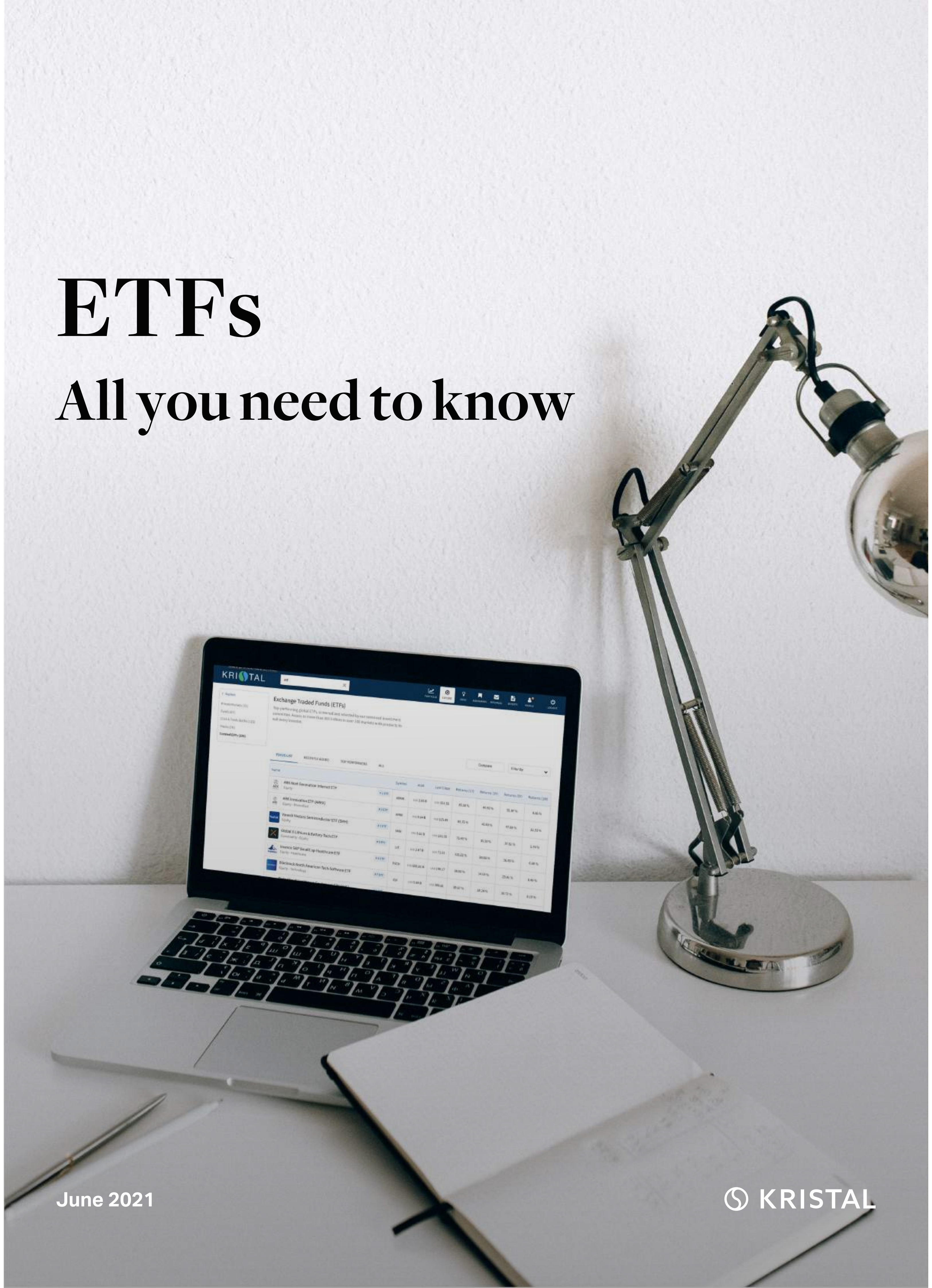
ETFs

All you need to know



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01 | Introduction

What is an ETF?

How many times have you asked yourself what an ETF is? Exchange-Traded Funds is an equity investment tool traded on global exchanges, just like stocks. Let's understand more about ETFs, and how they can add value to your portfolio.

An Exchange Traded Fund (ETF) is an investment product that tracks the performance of an underlying index. They can be seen as baskets that hold stocks or bonds and are traded in the same way as regular stocks. They aim to match the underlying index they track. For instance, if an ETF tracks the performance of the S&P 500, it aims to offer the same kinds of returns to its investors as the S&P 500 does. This makes them ideal for investors who want a passive strategy when it comes to their wealth management.

They are perfect for investors who are looking for viable alternatives to mutual funds and are known for having lower expense ratios, and better price visibility when compared with their MF counterparts. As they hold an entire basket of stocks and bonds, they offer high possibilities of diversification for investors.

02 | Advantages of ETFs

Why are ETFs so great?

Diversification

A single ETF can help you gain exposure to an entire market segment, equities or even styles. They can also increase your portfolio's diversification as they track a much broader range of stocks.

Trades just like stocks

One of the things that make ETFs so popular with investors is that they offer the liquidity of a stock. The prices for ETFs are updated throughout the day, and they can be traded at any given time. On the other hand, when you look at mutual funds, the prices are only posted at the end of the day when the market closes, which offers a lower level of transparency for investors looking to buy the same.

Lower fees

ETFs are managed passively, which is what contributes to the fact that they have much lower management fees when compared with mutual funds. When you invest in a mutual fund, you must also pay additional costs such as service fees for marketing, load fees for distributions or sales, and expenses for shareholder accounting at the fund level. The lack of these makes ETFs far more accessible to newer or younger investors looking to grow their wealth.

Immediately reinvested dividends

When you invest in an open-ended ETF, you'll find that the dividends are immediately reinvested. When it comes to mutual funds, though dividends are reinvested, there is no exact timing set for when this must be done.

Limited tax on capital gains

Many investors foray into the world of investments solely because they want to save on their taxes. As a result, they end up looking for mutual funds as they are known to help with the same. However, it may surprise you to know that ETFs are far more tax-efficient when compared with mutual funds. There are fewer capital gains taxes involved. Additionally, when you sell or buy ETFs, there are no taxes added to the final investment.

Lower premiums

ETF share prices are rarely higher or lower than their actual value. This financial instrument trades any time during the day and mimics the price of the underlying asset. Even if the price is lower or high than the NAV, arbitrage brings it back in line. ETFs typically trade based on supply and demand, which means market makers catch any discrepancies in the price point.

03 | Understanding the Types of ETFs

As an investor, you must select the funds that suit your investment goals the most, to make the most out of your investment. Though you may have chosen to invest in ETFs, the decision-making process does not end here as there are different types of ETF that you must consider.

Stock ETFs

As most ETFs tend to track equity indexes or sectors, this is the most common type of ETFs you'll find when sifting through all your options. These ETFs can either mimic a collection of stocks grouped by geographical location, sector or any other common feature, r mimic a single index, such as S&P 500. A single share in a stock-based ETF buys you a nominal amount of each company that the ETF tracks, and can be managed either actively or passively.

Bond ETFs

Many financial advisors believe that each investor should include bonds in their portfolios, irrespective of their risk appetite or age. Broad market bond ETFs tend to cover the entire market while bond sector ETFs only focus on specific types of bonds such as the Treasury Bond, international sovereign obligations of foreign nations, or corporate debt.

Industry-based ETFs

Industry based ETFs are funds that track a specific sector or an industry, such as Tech. Tech ETFs have been consistently performing very well when compared with other industry-based ETFs. Having said that though, their total risk index stands around 1.46%, making this a volatile fund that's more appropriate for investors with large risk appetites.

Financial ETFs

Financial ETFs track the performance of an international currency and are ideal for investors who do not want to place all their faith in the dollar. Investors can profit from the moves that occur in foreign currency compared to the US dollar.

Commodity ETFs

Commodity ETFs are tied to the performance of a specific asset such as gold, petroleum, and so on. However, what you must understand is that when you're investing in this type of ETF, you aren't buying the commodity itself. Instead, you're buying derivatives contracts. The buying and selling of these contracts depend on the way you hedge your risk, and these do require a certain amount of active management.

Still unsure on how to pick ETFs?

Use the Kristal Proprietary Algorithm to generate a portfolio that is suitable to your needs and investment time horizon!

1. Sign Up for an account on Kristal.AI! If you have already created your account, do remember to complete your KYC and fill in your risk profile!
2. Once you have logged into your account, simply go to 'explore' and click 'Advisory Algo', please proceed to click on 'Run Algorithm'.
3. Enter your starting capital and desired risk level. Click 'Next' and in a few moments, a portfolio suited to your needs will be generated by the portfolio!

Get Started Now! →

04 | How to begin Investing in ETFs

One of the things that make ETFs easy to invest in is the fact that they are listed on the Stock Exchange and can be bought and sold in the same way stocks typically are. This means that you can trade in ETFs through any online broker or traditional dealers.

Picking the right ETF for your needs

Before you begin investing in ETFs, you must be able to identify the right ETFs for your needs. One of the best ways to do this is by analyzing your goals and basing your decisions on the same. As a novice investor, the idea of establishing goals that are set way ahead in the future might be a bit daunting, but all it takes is a little bit of self-reflection and an honest understanding of what you want in life.

STEP 01

Identify Your Goals

Start by envisioning the life you want to lead. What do you picture? Are you debt-free? Retired? Do you wish to travel the world? Treat these dreams as very real goals and you'll find that you're able to achieve them all. To get you started, we've listed down a few examples of common goals that people identify:

- To save enough money to facilitate one's child's education abroad
- Pay off mortgages or loans taken on a property
- Be able to retire at an early age
- To start your own company
- Clear any existing debts such as medical bills, education loans, and so on
- Travel the world without any financial hindrances

Once you've identified your goals, you must then estimate the funds you need to achieve them. For some goals, this is relatively simple. For instance, if you have a pending loan of $20,000, you are clear about the sum you need to be free of debt. On the other hand, if you want to travel the world, you must jot the average cost of flight tickets, accommodation, food and miscellaneous expenses, account for inflation, and then come up with a number that represents what you will really need.

STEP 02

Choose a Comfortable Term Period

After all this, you must then set yourself a timeline to achieve the goal. You might want to retire by 40 or buy a home by the time you hit your 30s. With this, you'll have a basic idea of the term period that you are comfortable with.

STEP 03

Identify Your Risk Appetite

We believe that an investment that makes you sweat at night isn't something worth your time. Ultimately, every investor is comfortable with different levels of risk, and this is something that must drive their decisions. It is also important to understand that low-risk ETFs also offer a lower yield when compared to high-risk investments, and you may have to either adjust your expected ROI or term period to meet your goals.

STEP 04

Choose an ETF

Finally, you need to then identify the ETFs that offer the returns you expect in the term period you would like to invest for. You must go through the past performances of the ETF, understand market conditions well enough to feel confident about investing in it and be quick-witted enough to predict market conditions that may just cause your stocks to plummet. Then, and only then, can you actually pick an ETF to invest in.

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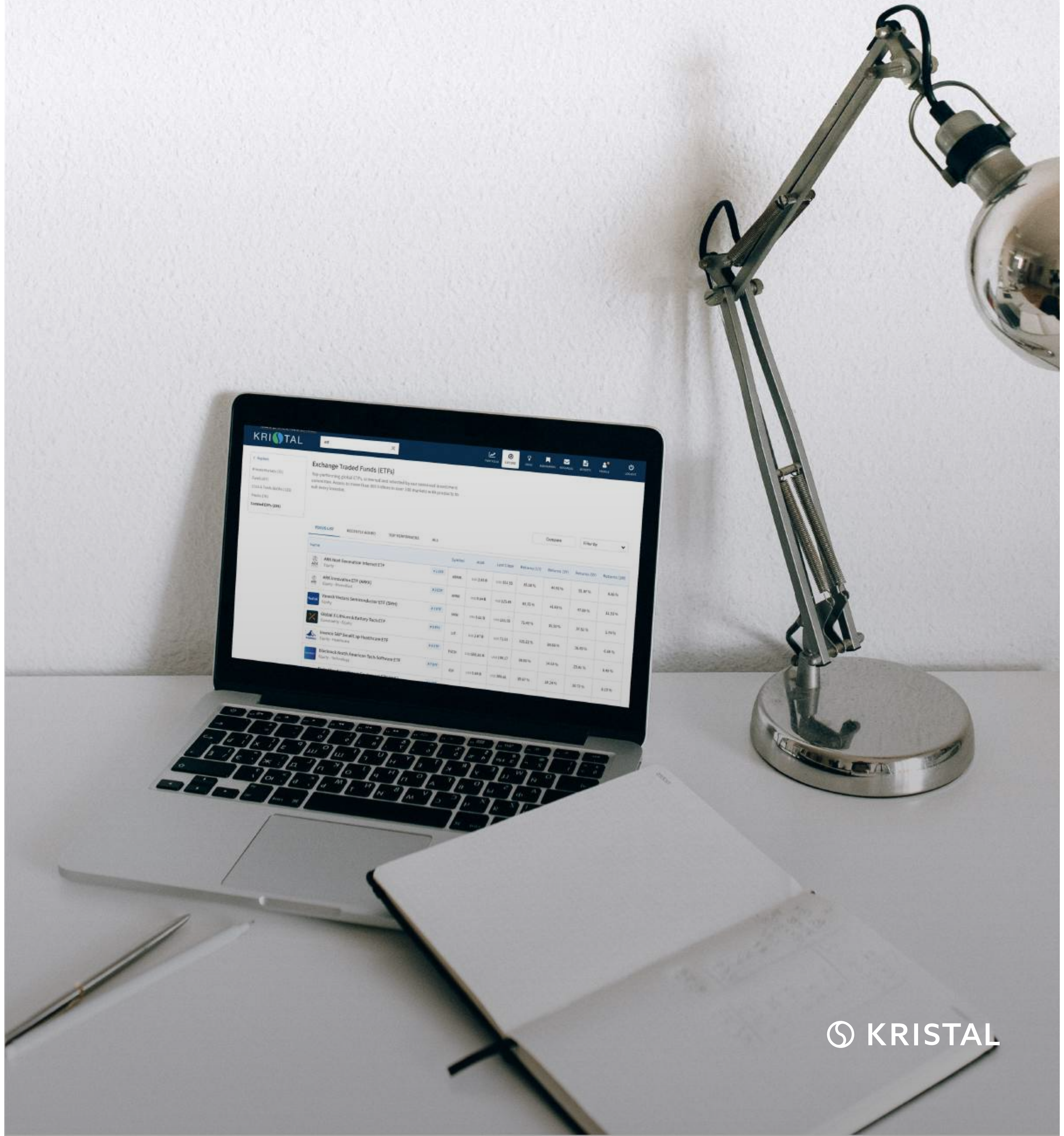

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