

# Comparing Mutual Funds & ETF's

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Know what you own,  
 know how it works,  
 and why you own it.



Peter Lynch

# ETF and mutual fund comparison

	ETFs	Mutual Funds
Legal structure	Three possible structures – Open-End Mutual Fund; Unit Investment Trust (UIT); Grantor Trust	Can be open-end fund or closed-end fund
Buying & selling	Trades like a stock Can be shorted	Buy and sell through your mutual fund account or broker
Trading & pricing	Trade ETFs on the major stock exchanges anytime during the trading day. Their prices will fluctuate throughout the day just like stocks	Mutual fund shares are priced once a day after the markets close (to NAV)
Transaction costs	Pay trade commissions. There's an unavoidable cost when trading individual stocks, bonds, and ETFs known as the bid-ask spread	Usually, no transaction costs when you buy and sell your mutual fund. Loads and fees can be charged.



## ETF and mutual fund comparison

	ETFs	Mutual Funds
Automatic investing	There's no automatic investment option for ETFs	Can invest your savings on a regular schedule by moving money directly from your bank account into your mutual fund account
Minimum investment	You can buy an ETF for the cost of a single share. Cost per share varies throughout the trading day	Minimum investments vary, and can be waived by the plan administrator, or be based on overall funds in a plan, not just your own contribution
Expenses	Internal expenses of most ETFs are considerably lower than those of many mutual funds – expressed as an expense ratio	May have front or back end loads, 12b-1 fees, management fees, advisor fees, assets under management fees, and other charges

## ETF and mutual fund comparison

	ETFs	Mutual Funds
Tax Advantages/ Disadvantages	Typically, ETFs tend to realize fewer capital gains; more tax efficient by the way they are created and redeemed	
Liquidity	Varies with the ETF. May be thinly traded, creating a larger bid-ask spread and variation from NAV	
Survivability	Has potential to go bust	Underperforming funds are typically absorbed into better funds in the same fund family
Management	Passive	Passive or active

## ETFs vs. Mutual Funds Which to use?

Your individual circumstances will drive your choice

Factors:

- Cost – acquisition & maintenance
- Taxable or tax deferred account?
- Regular payments or single payment?

## What to avoid – Mutual Funds / ETF's

- ❖ Leveraged Funds / ETFs
- ❖ Inverse Funds / ETF's
- ❖ Obscure Country Funds / ETFs
- ❖ Currency Hedged Overseas Sector Funds / ETF's
- ❖ Narrow Sector Funds / ETF's
- ❖ Single Commodity Fund / ETF's
- ❖ Trend Funds / ETF's
- ❖ Volatility Funds / ETF's

### More what to avoid

Mutual Funds	ETFs
High fees – compare to category; use funds with fees less than category	High fees – for ETF’s tracking a similar index, lower fees usually provide better returns
Front end loads	Exchange Traded Notes (ETN’s)
Back end loads	



9

### Where to find more information

- Morningstar.com
- Fidelity.com
- LipperLeaders.com
- Investor.gov  
(US Securities and Exchange Commission)
- Fund company specific



10

## Questions



11