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C.GERACI & CO.
WEALTH & INVESTMENT ADVISORS

Why Exchange Traded Funds?

Exchange-Traded Funds, or ETFs, are index funds that trade just like stocks on major stock exchanges. Want to invest in the market quickly and cheaply? ETFs are the most practical vehicle. They help the investor focus on what is most important, choice of asset classes.
All the major stock indexes have ETFs based on them, including:

- Dow Jones Industrial Average
- Standard & Poor's 500 Index
- Nasdaq Composite

There are ETFs for large US companies, small ones, real estate investment trusts, international stocks, bonds, and even gold. Pick an asset class that is publicly available and there is a good bet that it is represented by an ETF or will be soon.

ETFs differ fundamentally from traditional mutual funds, which do not trade midday. Traditional mutual funds take orders during Wall Street trading hours, but the transactions actually occur at the close of the market. The price they receive is the sum of the closing day prices of all the stocks contained in the fund. Not so for ETFs, which trade instantaneously all day long and allow an investor to lock in a price for the underlying stocks immediately.

ETFs are economical to buy and especially to maintain over the long-run, making them especially attractive for the typical buy-and-hold investor. Annual fees are as low as .09% of assets, which is breathtakingly low compared to the average mutual fund fees of 1.4%. Although investors must pay a brokerage transaction to purchase them, with discount brokers this becomes negligible with sizable trades. There are a few easy-to-avoid pitfalls to watch out for. Tax effects are also not to be ignored, and ETFs perform well after-tax. They can be margined, and options based on them allow for various defensive (or speculative) investing strategies.

Their safety as a securities instrument (considered separately from the safety of any particular asset class they might represent) is considered the same as stock certificates themselves. Internally, ETFs are far more complex entities than mutual funds. A fascinating combination of players, including brokers, money managers and market specialists combine to make them run smoothly. Legally, ETFs are a class of mutual fund as they fall under many of the same Securities Exchange Commission rules that traditional mutual funds do. But their different structure means that the SEC has imposed different requirements from traditional mutual funds in how they are bought and sold.

ETFs are index funds at heart, so investors are encouraged to study the philosophy of index investing which downplays stock picking in favor of buying the market. But unlike most traditional index funds, investors need not take a passive, buy-and-hold approach. ETFs are also becoming favorites of hedge funds and day traders who like to pull the trigger frequently. Both types of investors may coexist and in fact strengthen each other by lowering overall transaction costs.