EXCHANGE-TRADED FUNDS**: Easy diversification**

IN BRIEF

An exchange-traded fund (ETF) can offer an easy way to add diversification to your portfolio. An ETF is essentially a basket of investments that trades on an exchange (similar to a stock). You can buy ETF shares the same way you buy shares of a stock. But instead of providing exposure to only one investment, many ETFs can provide exposure to potentially hundreds or even thousands of investments—helping you diversify your portfolio with just one trade.

**What is an ETF?**

An ETF pools the money of many investors to purchase a portfolio of investments. This can help individual investors gain exposure to more investments for a smaller dollar commitment than if they were to buy each investment on its own.

When you buy an ETF share, you purchase an ownership stake in the fund’s portfolio. You can’t buy or sell the individual securities held by the ETF, but the value of your shares should increase or decrease with the underlying portfolio’s performance. ETFs can invest in stocks, bonds, commodities, and other investments.

**Key features**

Here are some important features of ETFs:

* Exchange traded

As the name implies, ETFs trade on stock exchanges, which means you can buy and sell them during trading hours. It also means that prices of ETF shares shift throughout the day. Price fluctuations can occur due to general market sentiment or because the investments within the ETF change in value.

* Tax efficient

Most ETFs “buy” and “sell” their underlying investments through an in-kind redemption process, which essentially exchanges one basket of investments for another (similar to bartering or trading baseball cards). Transacting through this process avoids the taxable event that may arise when buying or selling an investment with cash. As a result, ETFs may have a smaller impact on your tax bill than other types of investments.

* Lower fees

Many ETFs track indexes. These “passive ETFs” often charge lower fees than investment products that employ an active manager.

* Low minimums

With ETFs, you can purchase as little as one share—often for $50 or less.

**Passive vs. active**

There are two types of ETFs—passive and active—which have different goals and management strategies:

* Passive

Passive ETFs aim to match, not beat, the returns of an index, such as the S&P 500.

* Active

Actively managed ETFs aim to beat the performance of a given index (or other benchmark) and generally charge higher fees than passive ETFs.

**The benefit of diversification**

One of the most significant benefits of investing in ETFs may be the power of diversification.

Instead of buying stocks, bonds, and other investments individually—which can be both expensive and time-consuming—buying shares of an ETF can provide exposure to a broad range of investments in one transaction. Distributing your portfolio across many industries, types of investments, and regions can help reduce your portfolio’s risk when markets become volatile.

**Good to remember**

If you are considering purchasing shares of an ETF, do your research and make sure that its objectives align with your own. That includes understanding whether it’s passive or active, what underlying investments it owns, its annual expense ratio, and any other costs or fees that may apply.

YOUR NEXT STEPS

Find out if ETF investing is right for you.

* Learn how ETFs compare to mutual funds: [Financial Jargon Busting: Mutual Funds vs. ETFs](https://www.chase.com/personal/investments/learning-and-insights/article/financial-jargon-busiting-mutualfunds-etfs).
* Check out You InvestSM Trade, where you can buy and sell ETFs.

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