ETF Advantages And Disadvantages

Exchange traded funds (ETFs) are a popular among investors nowadays. These investment vehicles are similar to index funds, except they are traded as stocks on the stock market. Here are advantages and disadvantages of investing in ETFs Advantages1. Convenience: Investing in ETFs are as easy as investing in stocks. You just need to buy one as you would buy any regular stock.2. Low fees. Like index fund, ETFs have low fees. You can expect the management fee to be about .1% for S&P 500 trackers like IVV and SPY. The management fees are higher for more exotic ETFs like the Russell 2000 Index ETF (IWN) and Vanguard Emerging Markets ETF (VWO).3. Tax efficient. There are no unexpected capital gains/losses when you purchase an ETF. Sell when tax-wise it makes the most sense to you.Disadvantages1. Convenience. The ease of buying/selling an ETF means you might sell an ETF when you later believed you should have held on. Of course, solid investment discipline will avoid this disadvantage.2. Market spread. If you are buying a rare ETF, the buy/ask spread might be somewhat significant. This can be avoided if you invest in the major ETFs.3. Index fund disadvantages. Since you gain the advantages of an index fund (like low fees), you also receive most of the disadvantages as well. Because an ETF blindly follows an index, it means it holds shares of stocks you might not like that happen to be in that index.

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About the Author