

FinancialQuotient

What is an exchange-traded fund?

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WHAT DOES IT MEAN?

An exchange-traded fund (ETF) is a tradable financial product that pas-

sively tracks the price movement of a portfolio of asset classes, including stocks, bonds, commodities and money markets.

An ETF trades like a common stock and experiences price rises

and falls throughout the trading day. The return from the ETF will be the portfolio return net of expenses and transaction fees.

WHY IS IT IMPORTANT?

An ETF allows for immediate access to a passive diversified portfolio by individual investors who may not have the resources to directly purchase the underlying securities of an index to achieve the benefit of diversification. Diversification is important for investors as it reduces the risk exposure of an investment without hurting the expected return from the investment.

The Singapore Exchange (SGX) is home to 76 listed open-ended ETFs that offer exposure to various asset classes as well as global financial markets. Some ETFs track single-country stock indices, others track a broader index covering geographical regions such as the Asia-Pacific, emerging market, Europe or the global market as a whole.

There are also three ETFs tracking commodities and eight ETFs tracking fixed-income securities including government, corporate and high-yield bonds around the world. Five ETFs track money market indices. These ETFs are mostly de-

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nominated in Singapore or US dollars and can be traded in units of five, 10 or 100.

IF YOU WANT TO USE THE TERM, JUST SAY:

“I can use ETFs to diversify my investment portfolio and access international financial markets.”

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• The opinions expressed are those of the writer and do not represent the views and opinions of NUS.