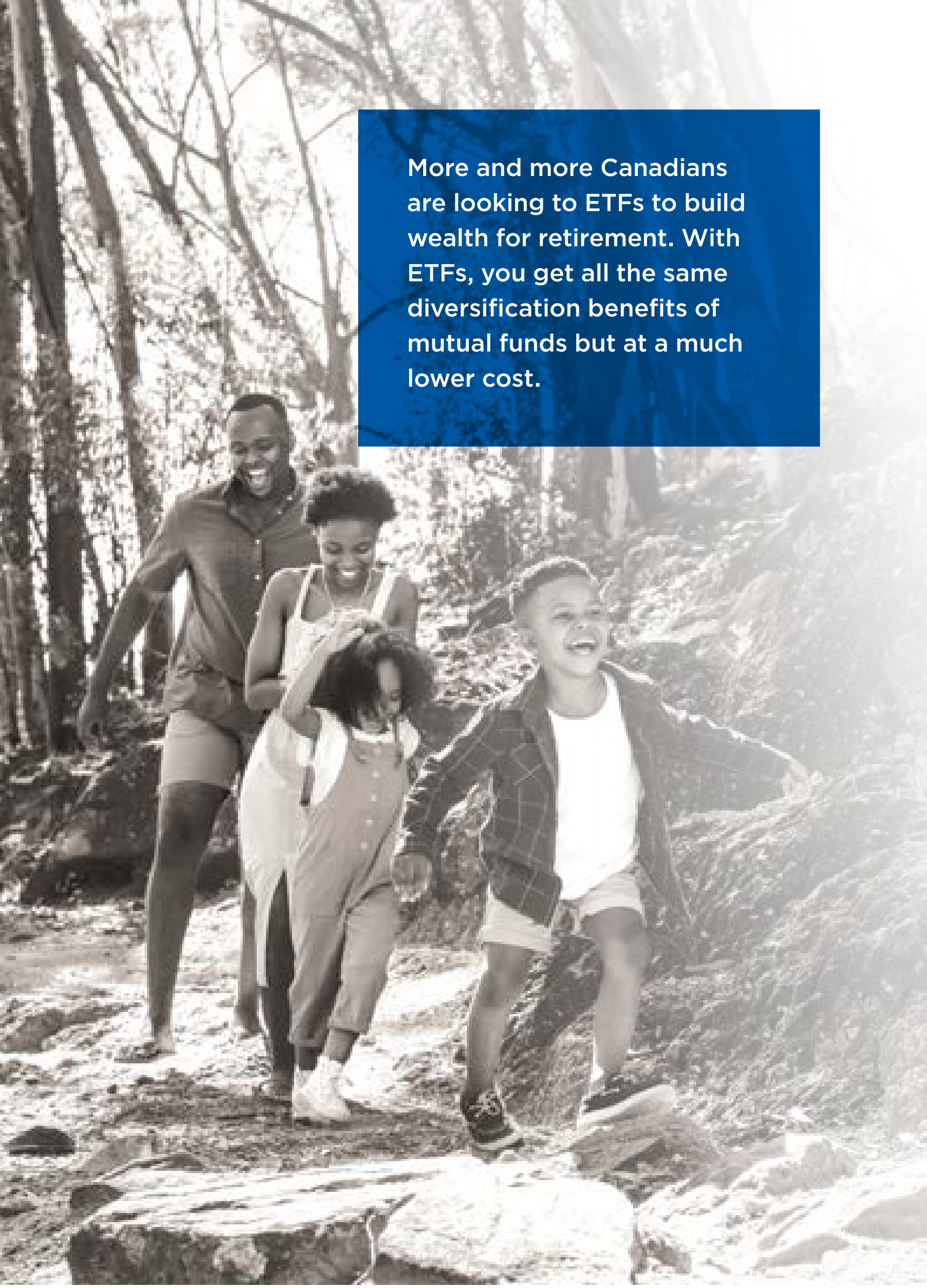
Exchange-Traded Funds (ETFs)

Put more of your investment dollars to work. Choose a diversified portfolio of low-cost ETFs.

iA Private Wealth



More and more Canadians are looking to ETFs to build wealth for retirement. With ETFs, you get all the same diversification benefits of mutual funds but at a much lower cost.

The basics:

What you need to know about ETFs.

What's an ETF?

ETFs are very similar to conventional mutual funds in that they make it possible to gain exposure to a large basket of stocks and bonds with only a fraction of the money you'd need if you were to buy each of the securities in the basket individually. For example, when you put $1,000 into an S&P 500 Index ETF, you have real exposure to 500 U.S. stocks – some of which cost well over $1,000 for a single share when purchased individually.

ETFs vs. mutual funds

One major difference between ETFs and mutual funds is the way they're bought and sold. As their name suggests, ETFs are bought and sold on a centralized exchange – just like a stock – while mutual funds are purchased from the manufacturer through an investment dealer like iA Private Wealth.

Another major difference is the way ETFs are managed. The overwhelming majority of ETFs are passively managed, which means the ETF manufacturer will simply replicate the entire market index. If there are 500 stocks in the index, the ETF will provide investors with exposure to those same 500 stocks. This contrasts with the active approach of most mutual funds, where a professional portfolio manager conducts extensive research and picks a select group of securities from the wider index with the goal of boosting returns or reducing risk – or both.

The third key difference flows from the second: because passive ETFs are simply replicating an existing index, there's no portfolio manager and research team to pay, which drives the cost of most ETFs down to an extremely low level. This is one of their biggest draws.

FAQ

Questions and answers about ETFs.

1 What types of ETFs are available?

The range of options is quite broad, covering virtually every asset class and investment style. Here are some of the most popular:

Equity index ETFs are designed to replicate a stock market index, such as the S&P/TSX Composite Index in Canada or the S&P 500 Index in the U.S.

Fixed-income index ETFs track the indices for investment grade bonds, high-yield corporate bonds, senior loans and other sub-asset classes within fixed income.

Sector/industry ETFs provide targeted exposure to specific segments of a market index. For example, a typical Canadian bank ETF consists of a basket of securities that's limited to the big banks.

Thematic ETFs invest in the securities of companies that participate in broad themes such as technological innovation or environmental sustainability.

Factor ETFs provide exposure to securities that exhibit a specific set of characteristics, which together make up what are called factors. Examples of factors include quality (companies with strong balance sheets, competitive advantages and growth prospects), value (strong businesses trading at prices well below their true value) and momentum (stocks that exhibit a sustained upward price trajectory).

Portfolio ETFs are comprised of multiple individual ETFs covering a variety of asset classes and geographies, providing an all-in-one, fully diversified solution geared towards a specific investor profile. When you buy a portfolio ETF, your account will show one holding, but that single security has a fully diversified basket of ETFs under the hood.

2 What are the fees?

As noted, fees on passive index ETFs are very low. For instance, an ETF that replicates the S&P 500 Index can cost as little as $0.08 for every $100 invested, while an active U.S. equity mutual fund can cost as much as $2.50 for every $100 invested. Prices of actively managed ETFs are generally in line with their F-class mutual fund cousins. You'll also pay a premium for speciality ETFs, which provide exposure to unique strategies and hard-to-access asset classes.

3 Which is better, active or passive?

It's a hotly debated topic, and the true answer will depend on your specific needs and objectives. For example, if keeping costs down is a top priority, then low-fee, passive index ETFs are your best choice. On the flipside, if you're more focused on having the potential for market-beating returns, your only choice is an active ETF (or mutual fund). For many investors, a mix of active and passive can be the right way to go. A common approach is to use low-cost passive ETFs to get exposure to highly liquid asset classes such as U.S. equities, and then use active ETFs for less liquid, higher-risk asset classes as well as for shorter-term "tactical plays" designed to bolster portfolio returns or manage risk. Ultimately, the correct approach is what's right for you, and that's best determined with the help of a trusted advisor.

4 Are ETFs safe?

The risks associated with ETFs are essentially the same as the risks you take when investing in mutual funds. This means the level of risk will vary depending on the types of ETFs you buy. For example, a passive ETF that replicates an emerging market equity index is going to carry far more risk of loss (and potential for gain) than a passive ETF that tracks a developed market investment grade bond index. In other words, an ETF is as risky as its underlying securities, so when selecting ETFs, you need to ensure your choices align with your risk tolerance and objectives. Once again, these decisions are best made with the guidance of a trusted advisor.

Did you know?

Canadian investors poured a record **$53 billion** into ETFs in 2021.

Source: National Bank of Canada, "December and Full Year 2021: Record ETF inflows, launches and assets," January 6, 2022.

At the end of 2021, there were 965 Canadian-listed ETFs from 40 providers, totalling **$348.6 billion** in assets.

Source: Canadian ETF Association, "CETFA Monthly Report," January 26, 2022.