ETFs

EXCHANGE-TRADED FUNDS

A low-cost way to diversify your portfolio.

iA Private Wealth

THE BASICS

What you need to know about ETFs

What's an ETF?

Similar to conventional mutual funds, ETFs offer exposure to a diversified basket of securities. For example, an S&P 500 Index ETF provides exposure to 500 different U.S. stocks. Trying to buy all those shares on your own would be expensive and cumbersome, highlighting the convenience and cost effectiveness of ETFs.

More and more Canadians have turned to ETFs to build wealth. With ETFs, you get the same diversification benefits of mutual funds but at a much lower cost.

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 traded on a centralized exchange – just like a stock – while mutual funds are purchased from the manufacturer, typically through an investment dealer like iA Private Wealth.

Another major difference is the way ETFs are managed. The overwhelming majority 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 with approximately the same weighting as in the index. 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 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 or research team to pay, which drives the cost of most ETFs down to an extremely low level. This is one of their biggest draws. Just keep in mind the objective of such ETFs is to match an index's return, not outperform it.

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 composed 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 substantially lower than the fees for corresponding actively managed mutual funds. Fees for actively managed ETFs are generally in line with their F-class mutual fund cousins. You'll typically 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 may be your best choice. However, if you're seeking the potential for market-beating returns, consider an active ETF (or mutual fund). For many investors, a mix of active and passive can be a good strategy. A common approach is to use low-cost passive ETFs to gain exposure to highly liquid asset classes like U.S. equities, and then use active ETFs for less-liquid, higher-risk asset classes and shorter-term "tactical plays" designed to bolster portfolio returns or manage risk. Ultimately, the correct approach is what's right for your specific circumstances, 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 type of ETF. For example, a passive ETF that replicates an emerging market equity index will carry 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?

In 2022, $35.5 billion was invested in Canada-listed ETFs.

Source: https://cetfa.ca/wp-content/uploads/2023/01/December-Year-End-Canadian-ETF-Report.pdf

At the end of 2022, there were 1,047 Canada-listed ETFs from 42 providers, totalling $339.7 billion in assets.

Source: https://cetfa.ca/wp-content/uploads/2023/01/NEW-CETFA-December-2022.pdf

About iA Private Wealth

iA Private Wealth offers tailored wealth management solutions through a network of more than 460 independent Investment Advisor teams. With over $50 billion in assets under administration, we are the partner of choice for discerning investors across Canada.

iA Private Wealth is owned by iA Financial Group, one of the largest insurance and wealth management groups in Canada, with operations in the United States as well. Learn more about iA Financial Group.

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