



BetaShares

Exchange Traded Funds

The Ultimate Beginner's Guide to

Investing in ETFs

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INTRODUCTION

If you're interested in getting a start in investing, then Exchange Traded Funds, or ETFs, may be a great place for you to begin.

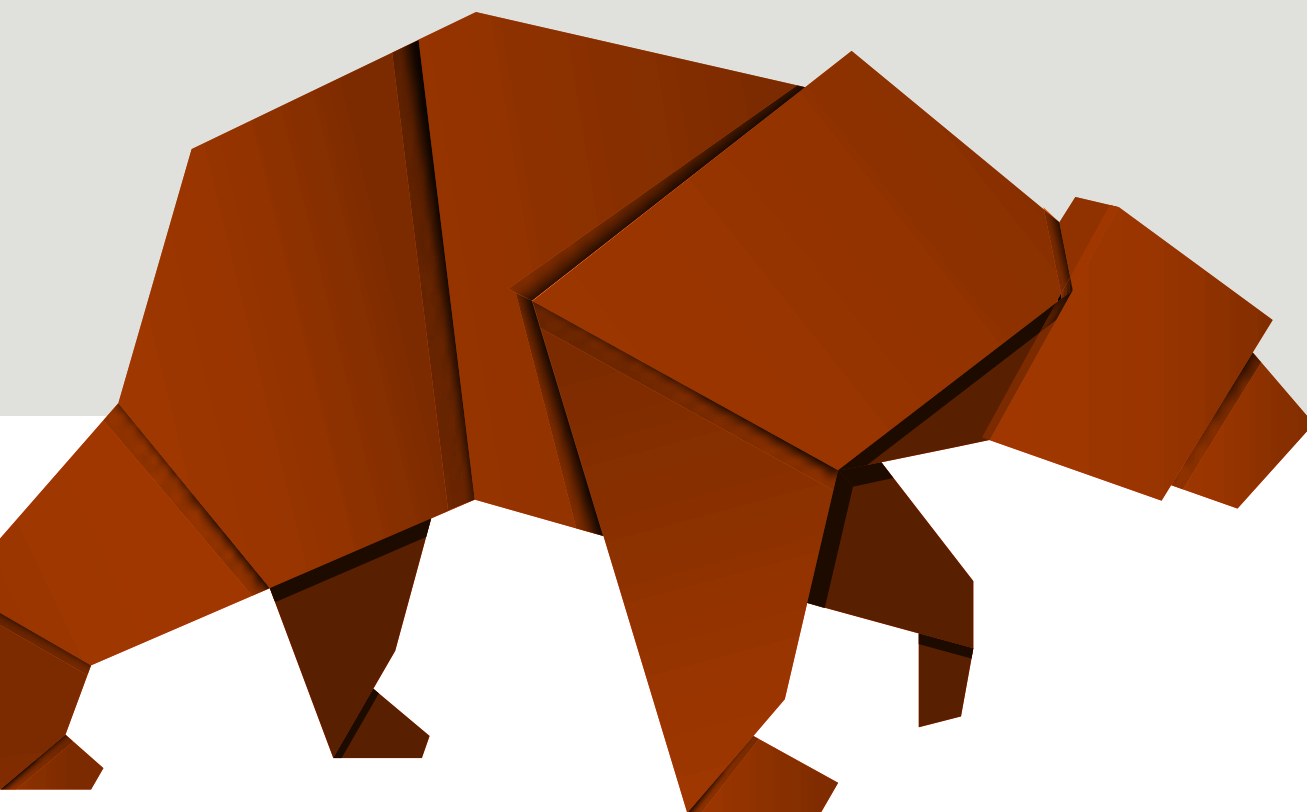
Once you have a basic understanding of ETFs, you'll find they're a more accessible and convenient way to participate in the sharemarket, and usually at a substantially lower cost than some other investment methods.

The first step, of course, is to understand what an ETF is.



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WHAT IS AN ETF, AND WHY SHOULD I CARE?



An ETF is an open-ended investment fund, similar to a traditional managed fund, that is traded on the ASX – just like any share. ETFs aim to closely track the performance of a given index or asset class, and provide the returns of that index or asset class – less any fees.

But why should someone just starting out their investment journey be looking at ETFs? There are a number of important advantages of ETFs, particularly for less experienced investors, but the four most important are:

THEY'RE SIMPLE

Invest in shares the conventional way and you could be looking at a complicated choice when it comes to deciding on which particular company, sector and geographic region to invest in.

On the other hand, ETFs are typically designed to track a whole sharemarket index, such as the Top Australian 200 Stocks, which means with one simple trade you are getting exposure to a whole market.

THEY'RE COST-EFFECTIVE

ETFs track the performance of the overall index (such as, say, the US sharemarket) or asset class (such as gold). As a result of this “passive” approach, the investor benefits as the ETF manager incurs lower costs in managing the portfolio, and so does not need to pass on the more expensive fees that are usually incurred in having someone “actively” manage the portfolio.

On average, the costs of ETFs are usually less than half the cost of a comparable traditional managed fund.

According to Morningstar, which is a research and data provider, the average fee for an active Australian share fund is 1.37% p.a. while a comparable ETF fee is 0.33% p.a.

In addition, ETF fund managers require no minimum investment amount, which means you can start investing with relatively small sums of money.

ETFs can also cover asset classes, other than shares, such as gold or bonds.



LIQUIDITY

You can buy and sell ETFs on the Australian Securities Exchange (ASX) just as you would any listed shares during the trading day. This makes them a convenient way to trade in comparison to some other off-market options.

CAN REDUCE THE RISK ACROSS YOUR PORTFOLIO

Many investors who are considering investing for the first time might consider buying a handful of shares. This means that their investment will be concentrated and they will be significantly exposed to the investment performance of a small number of companies.

By comparison, ETFs which aim to track sharemarkets give investors instant exposure to a diversified set of companies, say 200 in the case of broad Australian sharemarket ETFs.

This diversification means that 'single stock' risk is substantially reduced.

Where can I get a whole lot more information on trading in ETFs?

David Bassanese, (who also happens to be BetaShares' Chief Economist), has written an authoritative guide to investing in ETFs for Australians. The book is called *The Australian ETF Guide – How To Invest More Cheaply, Simply And Effectively Using Exchange Traded Funds (ETFs)*. It's a straightforward, easy to read, in-depth guide to ETFs.

You can also check out our blog and, in particular, the "BetaShares Academy" section which contains more basic information on ETFs – see <https://www.betashares.com.au/insights/category/betashares-academy/>



HOW TO START INVESTING IN ETFs



If the benefits of investing in ETFs sound good to you, then the next step is to decide what types of ETFs you might want to invest in. ETFs have been set up to cover a wide range of different sectors and geographies, be they bonds, commodities, or an entire sharemarket index, such as the NASDAQ-100 in the U.S.

ETFs are also now available on specific investment themes. For example, if you believe that companies which are in the global cybersecurity sector may perform well, you might be interested in investing in an ETF that focuses specifically on that. If you see an opportunity in the global technology leaders, such as Amazon or Facebook, then investing in a NASDAQ-100 ETF may be interesting to you. Or if you are looking for more stable, steady returns from fixed income, then bonds or cash funds might be where the opportunities lie for you.

ETFs are bought and sold exactly like shares, so there's no need to open a separate broking account if you already have one. The ASX ticker for the fund is used to buy and sell, without the need for any additional paperwork. If you have never bought or sold shares, you most probably won't have the brokerage account you need to trade ETFs so you will need to open one.

You can do some research and find that there are many options available, such as such as CommSec, Bell Direct, NabTrade and CMC Markets. Find the one that suits you best.

How much do I need to start trading in ETFs?

This is actually one of the biggest strengths of ETFs for beginner investors; the initial investment is not intimidating in the slightest – and you may typically start with as little as \$500. Where some other forms of investment might require a significant upfront amount, there is no minimum upfront requirement beyond what might be stipulated by your broker (which is typically \$500).

That makes ETFs a great way for a person to “dip their toe in” and get started in investing.



WHAT YOU SHOULD LOOK FOR IN AN ETF



There are a lot of ETFs on the market, and they're not all created equal.

While it is important to find an investment that will help you meet your financial objectives, there are a couple of key things to keep in mind when looking for ETFs (and we are very confident that you'll like what you see when you [research BetaShares ETFs](#)):

► Expense Ratio

All ETFs will publish an Expense Ratio. This is an annual cost, expressed as a percentage, that covers the fund management fees, administrative fees and other fund operating costs. For example, a fund with an Expense Ratio of 0.45% p.a. means that your investment will cost you \$4.50 for every \$1000 you have invested annually.

► The provider itself

We deal in a competitive space, and not all competitors are equal. If you're genuinely using ETFs as a way of building your wealth, you're going to want a provider that's reliable and experienced, and has a proven track record. Choosing an investment that meets your needs along with a client-focussed provider, such as BetaShares, that is committed to education and product innovation, may be the perfect match.

► Diversity

One of the benefits of an ETF is that it gives you a convenient and easy-to-manage way of building diversity into your share portfolio. In the often volatile market conditions that we face, diversification or "not putting all your eggs in one basket" can be one of the strongest defences.

What risks should I be aware of when it comes to ETFs?

One of the principal risks of an ETF is that its performance is tied to the underlying assets on which it is based. So, for example, if you choose an ETF based on the S&P/ASX 200 Index, and then the whole market suffers a dip, your investment will see a decline in value. These are the risks associated with investing - refer to the relevant Product Disclosure Statement (PDS) for information about risks.

Importantly, ETFs are regulated unit trusts, which means that they have the same legal structure as traditional managed funds, and that means that in the unlikely event that your product issuer suffers financial difficulty, the ETF's assets are held for the benefit of investors and will not be available to the creditors of the issuer.



4 TIPS FOR TRADING ETFs



Below is a summary of the top four tips for making the most of your ETF investment strategy. You can read more about each of these tips (and more), in our article on the subject [here](#).

1. Always refer to iNAV when placing an order

One of the greatest benefits of ETFs is their transparency; by using what is known as the “iNAV” or indicative net asset value you can, for many ETFs, [get an estimate of the “fair value” of the fund in real time through the trading day](#).

You can use this data to get a more accurate sense of the value of your investments and make better purchase or sale decisions.

2. Use a limit order

When trading through your online broker, after looking at the iNAV (where available), you will then be able to make better decisions about the price that you want to buy and sell at.

You don't have to set a price limit to purchase ETFs (known as a “limit order”), but it's strongly advised to do so, as in a volatile market, a number of factors can come together that can either drop the sale price or raise the buy price beyond what you're comfortable with by the time that your order has been placed and fulfilled.

Limit orders can prevent this from happening.

3. Remember that on-screen trading volume is not an indicator of liquidity

If an ETF hasn't traded much during the day, but you want to purchase or sell units, you can still do so, which is a fundamental difference (and advantage) ETFs have compared to standard stocks.

Read more about this here: <https://www.betashares.com.au/insights/understanding-etf-liquidity/>

4. Avoid trading in the first and last 10 minutes of the day

During the first and last 10 minutes of the trading day, when the markets are opening and closing, in general, there can be less information available with which to value certain shares or there can be a lot more volatility in share prices.

In this situation, the market maker's spreads may tend to be wider and the iNav may be based on a price that can move significantly within a minute or two.

You should, therefore, consider trading the ETF when stocks have settled down, usually 10 minutes after the markets open to 10 minutes before they close.



WHAT ARE YOU WAITING FOR? GET INVESTING!



ETFs are an attractive way for newcomers to sharemarket investing to get a sense for investment, and to start building their wealth. They're easy-to-use, cost-effective and versatile investment options, and their diversification is a critical benefit not just when you're making investments for your wealth now, but in the longer term, too.



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