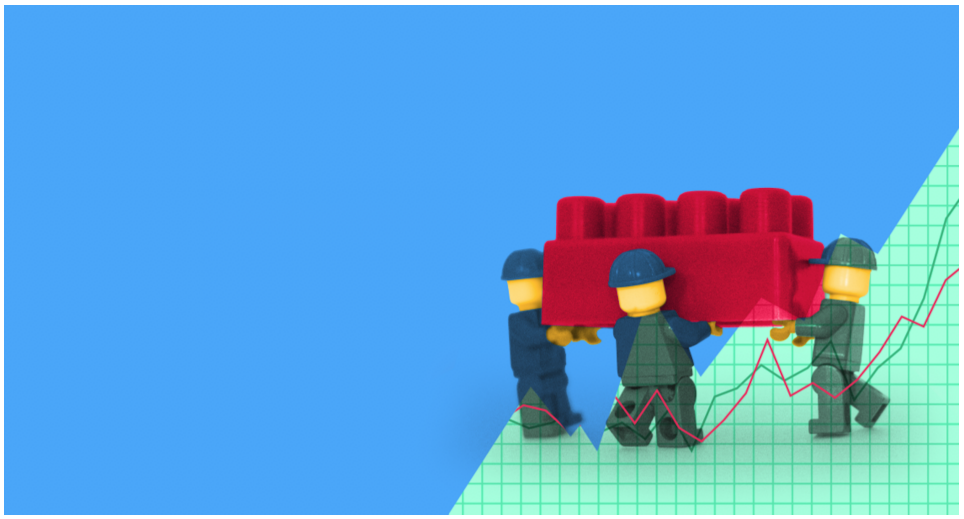
Investors' Chronicle



The IC guide to ETFs



Exchange-traded funds (ETFs) are hugely popular with investors for good reason. Cheap, simple and transparent, they offer a straightforward source of exposure to a growing list of different investments, from stock markets such as the FTSE 100 to gold, oil, bonds and more niche strategies. ETFs can work well as the building blocks of an investment portfolio, both for beginners and those with greater experience.

Glossary:

- Exchange Traded: Shares are listed and traded on stock exchanges
- Fund: Investors' money is pooled together and put it to work by investing in a specific market or asset
- Passive investing: Replicate the performance of a specified market by creating a portfolio that exactly mirrors it in terms of composition

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What's in this guide?

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What do you need to know about this popular investment product?

P4. Picking your ETFs
Choosing core, satellite and niche ETFs for your portfolio

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The IC guide to investment trusts



ETFs: The Basics

ETF shares are listed, and traded, on stock exchanges. Their share prices can rise and fall throughout the day, and normally move roughly in line with the value of their underlying investments.

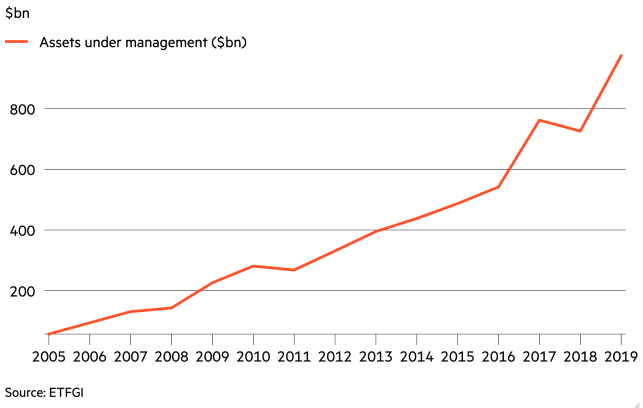
Most ETFs will take a passive approach, meaning they seek to replicate the performance of a specified market by creating a portfolio that exactly mirrors it. For example, a FTSE 100 ETF will invest in every company listed on that market.

Many ETFs take niche investment approaches, either to give you an edge over the market or to conform with investor preferences.

Some ETFs are targeted at specific sectors, others track indices specially designed to focus on a preferred metric. This approach is sometimes referred to as 'smart beta'. ETFs tend to publish full lists of their holdings, so you can take a look at what exactly you are buying.

With investors increasingly favouring cheaper products, the ETF industry has exploded in recent decades.

GROWTH STORY: EUROPEAN ETF ASSETS UNDER MANAGEMENT



Source: ETFGI

The London Stock Exchange (LSE), among others, offers a wide variety of different ETF shares:

17
Number of exchange-traded products newly listed on LSE in April 2020

1,262
Number of ETFs available on LSE in 2020

£12.8bn
Value of exchange-traded product trades in 2020

£54.9bn
Value of LSE exchange-traded product trades in first four months of 2020



Step-by-step guide to buying ETFs

1. Get going by choosing a platform

First off, investors must choose an online platform or broker that offers ETFs. These platforms vary in user-friendliness and price. Some generalist platforms will focus on a wide range of investments including ETFs, company shares and funds, while others have more of an onus on trading that can encompass shares (including ETF shares) and other assets such as currencies. Most permit investment via an ISA, others offer SIPPs. It's best to hunt around to find a platform which suits your own personal needs.

When you're getting going, remember to consider:

- How wide a range of ETFs do you require?
- How often are you planning to trade?
- Would you like to make other investments (in funds, for example) using the same provider?

Pick your platform:

The best investment platforms for buying ETFs

2. Choose your investment wrapper

The most tax-efficient ways to invest are via an ISA or a SIPP, and your choice will likely depend on when you need your money.

Basic principles:

- ISA: The right account for getting started in investing
- Sipp: The right account for saving for retirement

Pick your tax wrapper:

ISA vs Sipp: which should you pick?

The IC Guide to ISAs

The IC Guide to Sipps



3. Pick your ETFs

Your ETF selection criteria should include not just where you want to invest, but how competitively priced the ETF is and how effectively it tracks the relevant market. And with a huge number of ETFs on the market, one good starting point would be Investors Chronicle's list of Top 50 ETFs.

In consultation with a specialist panel, we work every year to identify the best options when it comes to ETFs that will form the core of your portfolio, as well as the options that promise to give your portfolio an edge or align with your views of the world.

To view the Top 50 ETFs 2020, click on the links below

Core ETFs: 23 ETFs which offer basic exposure to global markets and should make up the basics of your portfolio

Satellite ETFs: 20 ETFs which offer more targeted exposure to certain markets and industries

Niche ETFs: 7 ETFs which offer exposure to specific trends

UBS MSCI World Socially Responsible buys a basket of global stocks, but with a focus on those taking a socially responsible approach

Lyxor Global Gender Equality invests in an index of 150 companies from around the world that score highly for gender equality, based on 19 criteria set by Equileap

iShares Digitalisation invests in a set of businesses around the world that generate significant revenues from digital services



Your questions, answered

Are ETFs risky investments?

The sheer unpredictability of investing means you can risk losses, and ETF share prices can be volatile. But buying an ETF that tracks an entire stockmarket is arguably less risky than investing in a handful of company shares.

Do I need to be a trader to use ETFs?

While you can use ETFs to take advantage of market moves, there is no issue with buying into an ETF and holding on to that investment. Avoid trading too often will reduce risks and make your life simpler – but if you wish to buy and hold it may be better to invest using a generalist investment platform rather than one focused on trading.

Are ETFs better than mutual funds, such as unit trusts and Oeics?

This can depend on costs and how often you would like to trade. ETFs are often cheaper, but a temptation to trade often may lead you to rack up further costs. You are also taking greater risks, though for some this is a strategy that might pay off.

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