Types of Exchange Traded Funds (ETFs)

Blackstone Moregate
Independent Financial Advisors

- Index ETFs
  An index ETF seeks to track the performance of an index by holding in its portfolio either the contents of the index or a representative sample of the securities in the index.

- Commodity ETFs or ETCs (Exchange Traded Commodities)
  Exchange Traded Commodities (ETCs) are investment vehicles (asset backed bonds, fully collateralised) that track the performance of an underlying commodity index including total return indices based on a single commodity.
  Commodity ETFs invest in commodities, such as precious metals and futures. Commodity ETFs generally are index funds, but track non-securities indexes.

- Currency ETFs
  A currency ETF tracks a foreign currency. These can be invested in a single currency or basket of currencies. Currency ETFs aim to replicate movements in currency in the foreign exchange market by holding currencies either directly or through currency-denominated short-term debt instruments.

- Actively Managed EFTs
  This has a manager or team making decisions on the underlying portfolio allocation or otherwise not following a passive investment strategy. The actively managed ETFs approved to date are fully transparent, publishing their current securities portfolios on their web sites daily.

- Exchange-Traded Grantor Trusts
  Grantor trust holds a fixed portfolio of assets and issues shares based on the value of those assets. Shares in grantor trust ETFs are traded on the stock market throughout the day as other ETFs are. But unlike ETFs that are structured as investment company funds or unit investment trusts (UITs), grantor trusts aren’t securities, don’t track an index, and aren’t rebalanced from time to time.

- Hedge Fund ETFs
  Hedge fund ETFs are a new type of an ETF. A hedge fund ETF tracks a hedge fund and follows a group of hedge fund’s activity.

- Leveraged ETFs
  A leveraged ETF is a special type of ETF that attempts to achieve returns that are more sensitive to market movements than a non-leveraged ETF. Leveraged ETFs require the use of financial engineering techniques, including the use of equity swaps, derivatives and rebalancing to achieve the desired return. The most common way to construct leveraged ETF is by trading future contracts.

- Bond ETFs
  Just like other ETFs, bond ETFs seek to emulate a correlating index or underlying investment product. In the case with bond ETFs however, it’s not as simple as with other funds like oil ETFs or energy ETFs.

- Bond ETFs *(Continued)*
  Bonds are not active on secondary markets since they are normally held to maturity, yet ETFs are actively traded products on exchange floors.

- Inverse ETFs
  When the market starts to plummet, investors tend to want to get short. However, trading account constraints can make that an issue. Margins may not allow that possibility if one is selling a naked investment or there may be a restriction on certain accounts against selling certain investments. Enter inverse ETFs, funds created to create a short position when you buy the ETF. They have an inverse reaction to the direction of the underlying index or asset.

How to trade ETFs

When people say that exchange-traded funds (ETFs) are like funds, but with all the convenience of shares, they mean it. You really can trade an ETF just like a share. Since ETFs trade on the market, investors can carry out the same types of trades that they can with a stock. For instance, investors can sell short, use a limit order, use a stop-loss order, buy on margin and invest as much or as little money as they wish (there is no minimum investment requirement).In almost all cases, the dealing commission you pay will be the same for an ETF as it is for shares in companies.

ETFs can be bought or sold quickly, and cheaply, to rebalance portfolios and maintain an overall portfolio asset allocation. Simple rebalancing can be achieved with just a few trades.