Wayne’s World

(A Blog for the Precept Website)

ETF’s, an alternative to traditional Managed Funds

A managed fund is an easy way to invest for most people but is there a better way? I think there is.

A managed fund is an investment scheme where your money is pooled with other investors. The manager of this scheme then invests the pool of money into a variety of assets on your behalf, charges you to look after it and issues units to you depending on how much you invest. The value of the units will rise and fall based on the value of the underlying assets.

An advantage of traditional managed funds is that you are able to diversify across a number of different asset classes with only a small investment. A disadvantage of traditional managed funds can be the costs involved and the lack of transparency.

Exchange traded funds (ETFs) are a type of managed fund that is becoming very popular in Australia. Just like traditional managed funds, ETF’s can provide investors with access to a diversified portfolio of assets with only a small investment, but usually at a much lower cost.

ETFs cover a variety of assets such as Australian and international shares, fixed income, property, currency, precious metals and commodities. However, some ETFs are riskier and more complex than others so be careful.

Units in an ETF can be tracked or bought and sold just like any other share throughout the day, unlike traditional managed funds.

Simply put, ETFs provide investors with an easier, more transparent and more affordable way to access markets compared to traditional managed funds.

If exchange traded funds interest you, speak to your adviser to determine if you could benefit from incorporating ETFs in your investment plans.

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