ETFs vs. Mutual Funds: What's the Difference? – Video Script

Investor demand for exchange-traded funds, or ETFs, has increased over the last decade due to some attractive features that set them apart from mutual funds.

Like a mutual fund, an ETF is a portfolio of securities assembled by an investment company. But these two types of funds are priced and traded differently.

Mutual fund shares are typically purchased from and sold back to the investment company. They are priced at the *end* of the trading day, with the price determined by the net asset value of the underlying securities.

By contrast, ETF shares can be traded *throughout* the day on stock exchanges, like individual stocks. The share price of an ETF may be higher or lower than the net asset value because of supply and demand. This is called trading at a *premium* or a *discount*.

ETFs typically have lower expense ratios than mutual funds, which is a large part of their appeal. However, you may pay a brokerage commission when you buy or sell ETF shares, so your overall costs could be higher than trading mutual funds, especially if you trade frequently.

Another key feature is that ETFs can be more tax efficient than mutual funds, which could be important when the fund is held outside a tax-advantaged account. Whereas you may be liable for capital gains taxes when investments are sold within a mutual fund, with an ETF, you generally will be liable for capital gains taxes only when selling shares.

You can purchase a single share of an ETF if you wish, but typically you can only purchase whole shares. By contrast, mutual funds typically have minimum investment amounts, but you can generally invest any dollar amount after the initial purchase, buying partial shares as necessary.

The trading flexibility of ETFs may add to their appeal, but it could lead some investors to trade more often than might be appropriate for their situations.

The principal value of ETFs and mutual funds fluctuates with market conditions. Shares, when sold, may be worth more or less than their original cost. The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in any index.

Exchange-traded funds and mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your *financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*