Exchange-Traded Funds vs. Mutual Funds

Exchange traded funds and mutual funds have similarities and differences:

Issue	Exchange-Traded Funds	Mutual Funds
How structured?	Creation units (typically 50,000 shares) are "sold" to institutional investors in exchange for a basket of securities matching the ETF's investment goals. The institutional investor can then sell the ETF shares to individual investors in the open market. An individual investor wanting to sell shares can do so by selling to other individual investors in the open market. An institutional investor can "sell" a creation unit's worth of ETF shares back to the fund. To complete the transaction, the fund distributes the underlying securities to the institutional investor and then "destroys" the creation unit.	Individual investors buy shares in the fund directly from the mutual fund itself. The money is then invested in accordance with the fund's goals. If many shareholders redeem their shares at one time, the fund may have to sell some of its portfolio to be able to repay the departing investors.
How purchased or sold?	Through a stock broker	Directly with the fund or through a stock broker
Any cost to purchase or sell shares?	To buy or sell shares in many ETFs, the individual investor must pay a commission. Some financial service firms allow individuals to buy and sell ETFs on a commission-free basis; certain restrictions or limitations may apply.	"Load" funds levy various types of sales charges. For "no-load" funds, and often for funds purchased directly from the fund company, there are no sales charges.
Trading options?	Trades are executed on the open market. An investor can use a limit or stop order, "sell short," or use a margin account.	Purchases or redemptions are made directly with the fund itself.
What determines the share price?	Market fluctuations in the underling investments, as well as supply and demand for a particular ETF's shares, will cause the market price to rise and fall. Although share prices typically stay near the Net Asset Value (NAV), they can trade above or below NAV.	Net Asset Value, based upon the market prices of the underlying securities at the market close.

Exchange-Traded Funds vs. Mutual Funds

Issue	Exchange-Traded Funds	Mutual Funds
Average annual operating expenses	Generally, lower than those of a comparable mutual fund.	Typically, higher than for a comparable ETF. Services provided to individual investors can increase costs.
Tax efficiency	The underlying structure of an ETF (based on "Creation Units") is generally more tax efficient than that of a mutual fund.	Generally, less tax efficient than ETFs. The need to sell assets to meet shareholder redemptions can create gains and losses unrelated to a fund's investment goals.
Automatic dividend reinvestment or average cost statement?	May be available from the broker, sometimes for a fee	Typically provided free of charge by the mutual fund.
Investors who should consider this are:	• Investors who buy and hold for long periods of time. • Those with a single, large, lump-sum to invest. • Those seeking trading flexibility	• Those who buy or sell frequently. • Those with a small amount of money to invest. • Investors who rebalance their portfolio regularly.

Comparing Costs – Exchange-Traded Fund vs. Mutual Funds

For many investors, choosing to invest through either an ETF or a mutual fund comes down to *costs*. The Financial Industry Regulatory Authority (FINRA) makes available on its website a mutual fund and ETF analyzer which allows you to compare the different funds or share classes and estimate the impact that the various expense and fees can have over time. This calculator automatically provides the fee and expense data for you. The calculator can be found on the internet at:

https://tools.finra.org/fund_analyzer

Investing Involves Risk

- Investors should consider the investment objectives, risks, charges, and expenses of the Exchange Traded Fund and the Mutual Fund carefully before investing. The prospectus and, if available, the summary prospectus, contain this and other important information about the Exchange Traded Fund and the Mutual Fund. You can obtain a prospectus and summary prospectus from your financial representative. Read carefully before investing.
- An investment in Exchange Traded Funds (ETF), structured as a mutual fund or unit investment trust, involves the risk of losing money and should be considered as part of an overall program, not a complete investment program. An investment in ETFs involves additional risks such as not being diversified, price volatility, competitive industry pressure, international political and economic developments, possible trading halts, and index tracking errors.
- Investing in mutual funds involves risk, including possible loss of principal. The fund's value will fluctuate with market conditions and may not achieve its investment objective. Upon redemption, the value of fund shares may be worth more or less than their original cost.