# Exchange Traded Fund (Chapter 2)

## Exchange Traded Fund(ETFs)

- A security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stocks on an exchange.
- ETFs almost similar with Mutual Trust Fund/Unit Trust with some differences as below:

| Exchange Traded Fund (ETFs) | Mutual Fund/Unit Trust |
|---|---|
| Long and short | Long only |
| Listed on Exchange, continuous pricing | Fund's Net Asset Value (NAV) calculated at the end of the day |
| Low expense ratio (0.1% to 1.2%) and brokerage commissions (0.42% to 0.7%) | Sales charge (3% to 5%) and management fees (1% to 2%) Example: Public Mutual Trust Fund (5.5%) |

# ETF & Mutual Fund & REITs
(Have in Common)

- All are less risky than investing in individual stocks/bonds
- All offer a wide variety of investment options
- All are overseen by professional portfolio managers

# Long-Term Investing in Index ETFs
(Chapter 2)

- **Buy and hold Style**
  - Allow to achieve the long-term returns of the index (i.e. 8% to 12% compounded annually) (hold 10 to 30 years)

## Long-Term Investing in Index ETFs
(Chapter 2)

- **Dollar Cost *Averaging***
  - Involves buying fixed Dollar amount of EFT shares at regular intervals

## Long-Term Investing in Index EFTs...Cont..
(Chapter 2)

- **Buying/Selling based on market circle using PE Ratios**
  - When PE Ratio is at **15**, the stocks market is at the center of its cycle where **stock are fairly price**
  - From historical data, the minimum and maximum of the PE ratios are around **5 to 25**
- DON'T buy when the Index PE Ratio gets **above 25**. This tell us that market is coming to its top

## Trend following (ETFs)...Medium Term

- Only BUY Index EFT when it is on an uptrend and sell when it reverses into a downtrend
- BUY when 50 DMA is above 150 DMA and both MA are flat and/or sloping up
- BEST time to BUY is when the index make a **DIP** on the uptrend and bounces off its MA (50, 150 or 200DMA)
- SELL when the 50 DMA crosses below the 150 DMA and both MA are flat/or sloping down

## ETFs Strong Points

- **Learning points**
  - The market index is volatile in the short term. In long term it ALWAYS goes up
  - The longer you invest, the lower the risk
  - You always win if you hold long enough
  - This applies to the overall market (not individual stocks)
  - Invest in ETFs that track market indexes for long term gains.

## Word of Caution

- The market indexes rise over the long term for countries that have **inflation** and **population growth**
- In country like **Japan**, where it has been **deflationary** over the last 30 years and where the **population has been declining** the Nikkei Index has been sideways/on a down trend pattern over the long term. A buy and hold strategy would **NOT** have been profitable.

## Screener

- *ETF Screener-WSJ.com for Index PE Ratio*
- Lowest PE Ratios/EFT Database
- ETF Finder/Morningstar
- Yahoo Finance