

ETFs and You

How do you get immediate access to a basket of stocks or bonds in a single purchase? Find out what ETFs can do for your investment portfolio.

An Exchange Traded Fund (ETF) is a type of investment fund that can be bought and sold via a stock broker like an individual company stock. It is a portfolio of securities listed and traded on the stock exchange and it shares the same settlement process as stocks. Like a company stock, it has a bid price (price you buy at) and an offer price (price you sell at).

ETFs are very useful tools for investors to gain exposure to an asset class. When you buy an ETF, you get immediate exposure to a diversified portfolio of stocks or bonds. This is because an ETF tracks the performance of an index, for example, the Nikko AM Singapore STI ETF tracks the Straits Times Index.

Indices can be by country, region, or sector. It can also be asset class types such as fixed income, money markets, commodities and many others. Investors can hence use ETFs to obtain exposure to a global portfolio of different asset classes fairly quickly.

ETFs are also very convenient to investors who want to get an exposure which they otherwise have no access to. For example, bonds typically trade in large minimum blocks of at least US\$200,000 per issue. For a diversified portfolio of 50 bond issues, the figure balloons to US\$10 million. Individual investors seldom have that kind of scale. But an individual investor can buy a Bond ETF with a much smaller sum of money.

In Singapore for instance, an investor can get access to a portfolio of government and government-sponsored or quasi-government entity bond issues through Nikko AM's ABF Singapore Index Bond Fund.

For investors, an important consideration of buying an ETF could be cost. While an ETF is in essence a fund, it usually charges lower management fees than typical unit trust funds. The difference may be small but for long-term investors, aggregated over time, it does add up. It is also cost efficient as brokerage fees for buying an ETF are usually lower than the sales charges levied by distributors of unit trusts.

What is an ETF?

A diversified portfolio of securities which tracks an index.

Where can you find it?

The stock exchange

How do you get it?

Bought and sold via a stock broker

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Traditional Investment in Bonds

Typical minimum investment in a single bond issue



US\$200,000 or more

A diversified investment in 10 bond issues



US\$200,000 x 10 = US\$2 million

Investing in Bonds through ETFs

A diversified investment in bonds through ETFs



A fraction of the cost to attain a diversified spectrum of bonds

Any securities mentioned herein are for illustration purposes only and should not be construed as a recommendation for investment.

Disclaimer: All forms of trading and investments carry risk. Such activities may not be suitable for everyone.