
ETF BASICS PART 2: UNDERSTANDING THE DIFFERENCES BETWEEN ETFS VS MUTUAL FUNDS

WisdomTree ETFs
02/22/2013

Even though exchange-traded funds (ETFs) have become fairly popular, we're still somewhat surprised by how often people misunderstand the differences between them and mutual funds. It's natural to compare the two, as they are both pooled investments, but we think that understanding the difference in the way the two are structured and traded may help investors choose the investment type best suited to their investment goals.

	Exchange-Traded Funds	Mutual Funds
<i>Bought and sold</i>	On an exchange throughout the day	Through the mutual fund companies
<i>Sales charges</i>	None, though ordinary brokerage commissions apply	May have sales loads, purchase and/or redemption fees
<i>Minimum investments</i>	None, an investor can buy one share	May have high minimum investments
<i>Expense ratios</i>	Traditionally low	Dependent on management styles
<i>Liquidity</i>	Intraday	End of the day
<i>Trading flexibility</i>	<ul style="list-style-type: none"> • Ability to trade intraday • Special trading orders are possible: <ul style="list-style-type: none"> • Market—ETF shares are bought or sold at the market's current price at the time of execution • Stop—Sets a specific price at which an ETF is to be purchased or sold • Limit—Sets the maximum and minimum price, respectively, at which you are willing to buy or sell shares of an ETF • Short selling—Borrowing ETF shares to sell now in the hopes of buying them back more inexpensively later and profit from the difference • Margin trading—Taking out a loan to buy ETF shares, or using ETF shares as collateral in an effort to leverage your existing portfolio beyond your initial investment 	<ul style="list-style-type: none"> • Trades only executed once per day • Special trading not possible • Trading frequency restricted
<i>Consequences of purchases and sales</i>	Purchases and sales of shares on the secondary market generally	Purchases and redemptions of a large number of shares can
Security prices	<ul style="list-style-type: none"> • do not affect security prices 	<ul style="list-style-type: none"> • impact the underlying security prices as the fund buys or sells shares • impact the fund's NAV and returns
Tax implications	<ul style="list-style-type: none"> • do not impact tax efficiency • do not trigger capital gains or losses on the underlying securities¹ 	<ul style="list-style-type: none"> • trigger capital gains or losses on the underlying securities • affect the fund's tax efficiency
<i>Transparency²</i>	Fund holdings published daily	Fund holdings typically published quarterly
<i>Portfolio investments</i>	Assets are typically fully invested as there is no need to hold cash aside for redemptions	Mutual funds typically hold at least 5% of their assets in cash in order to handle day-to-day redemptions

As the table illustrates, ETFs offer a number of benefits that can make them extremely effective in helping investors reach specific long-term goals. Additionally, as with mutual funds, ETFs come in every style and asset class in the investment rainbow. They can be used to complement mutual funds in an existing asset allocation, to replace mutual funds—or for an entire portfolio. [Learn more](#) about how WisdomTree builds its unique ETFs.

¹Investors will be affected by tax consequences triggered by capital gains. ²Holdings are displayed daily on the website.

Important Risks Related to this Article

Neither WisdomTree Investments, Inc., nor its affiliates, nor ALPS Distributors, Inc., and its affiliates, provide tax advice. Information provided herein should not be considered tax advice. Investors seeking tax advice should consult an independent tax advisor.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and

physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

view the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.