SIGNIFICANCE OF ETF TRADING SYSTEM

What is ETF trading system?

- ETF stands for Exchange Traded Fund, ETFs are index funds (mutual funds that follow various stock market indexes) but they trade like stocks.
- The major dissimilarity between ETFs and other types of index funds is that ETFs do not try to surpass their parallel index, but simply copy and try to imitate its performance.

How ETF trading system works?

To understand that you first need to know what does mutual fund mean?

Mutual Fund:

Different investors form a group together. They collect and band up all of their money and hire a professional investment manager to invest that money for them.

After that, each investor gets "shares," which represent their portion in the total investment.

Every day, the mutual fund counts up the value of everything it owns and divides it by the total number of shares that exist and that is how the worth of each share is calculated.

If you wish to purchase more shares, you know the amount of cash to send the mutual fund for each share. If you want to sell shares, you know exactly how much cash to expect in return.

How is mutual fund related to ETF?

ETF is a pooled investment that offers broad exposure to a particular area of the market. It can invest in stocks, bonds, commodities, currencies, options or a blend of assets. Investors buy shares, which represent a proportional interest in the pooled assets.

It is a mutual fund in every aspect but they are exchange-traded funds.

Just as you purchase shares in a stock, you purchase shares in an ETF directly from any brokerage account, you enter a buy order in your account and buy any ETF you yearn for.
ETFs can be bought at any time. It has a very great advantage over simple mutual funds that you buy or sell a traditional mutual fund only once per day (after the close of trading), while ETF trades can take place any time the market is open. You can buy shares in the morning and sell them in the afternoon. You can buy them at 9 a.m., sell them at 10 a.m. and buy them again after lunch if you want.

Benefits of ETF trading:

- ETFs can cost their shareholders a smaller amount in taxes.
- You can also perform all sorts of stock-like strategies: selling short, placing stop-loss or limit orders, buying on margin.
- **ETF trading** is an improved overall choice than traditional mutual funds for many reasons: lower costs, better tax efficiency
- Like index funds, ETFs provide a competent way to invest in a specific part of the stock or bond market
- Since they track an index, you usually know exactly what is inside an ETF.
- ETFs often trade commission-free. The portfolios are flexible and tax efficient.
- ETFs have the additional benefits of broader diversification than shares in single companies
- Typical ETF administrative costs are lower than an actively managed fund, coming in less than .20% per annum, as opposed to the over 1% yearly cost of some mutual funds.