Spotlight on Exchange Traded Funds

Mutual Funds or ETFs? Making Informed Investment Decisions

For many investors, mutual funds have long been the cornerstone for long-term investing. More recently, exhange traded funds (ETFs) offer another way to invest.

Mutual funds and ETFs can both be viable choices for long-term investors. But, it's important that you understand the difference between the two to ensure that you make an informed investment decision that will help meet your investment goals.

In addition to standard index-linked exchange traded funds, more complex variations like leverage or inverse ETFs are also available to investors. Given the increased risk and complexity associated with these more exotic structures they may not be suitable for inexperienced investors.

Key Differences

MANAGEMENT

Mutual Funds		ETFs
Most suitable for investors seeking investment advice. ScotiaFund investors can consult a *Scotia* advisor for guidance on which funds are best suited to their goals, time horizon and risk tolerance.	ADVICE	Most suitable for active traders or self-directed investors who prefer to do their own research and make their own investment decisions without the help of an advisor.
Actively managed by professional portfolio managers, mutual funds offer the opportunity to outperform the broader market/index.	FUND OBJECTIVE	The majority of ETFs are managed to replicate a market index or commodity as closely as possible.
Mutual funds are required to distribute all income and net capital gains to unitholders. The size and frequency of the distribution will depend on the objective of the fund as well as portfolio turnover.	TAXES & PORTFOLIO TURNOVER	ETFs are required to distribute income and net capital gains to shareholders. Because ETFs typically track an index, portfolio turnover tends to be low. Lower portfolio turnover can increase the tax efficiency of ETFs.

FEES & COSTS

Mutual Funds		ETFs
Available in no-load, front-end and back-end loads. Sales fees do not apply to ScotiaFunds purchased at Scotiabank.	SALES FEES (LOADS)	Generally, load stuctures do not apply to ETFs but trading commissions may apply.
Management expense ratios vary based on the type of mutual fund. Equity and balanced fund typically have higher management expense ratios (MERs) than money market and bond funds.	MANAGEMENT FEES	ETFs that track a market index or commodity have very low management expense ratios (MER).
Investors that buy mutual funds directly from a fund company generally avoid transaction costs. There is no cost to buy, sell or switch between ScotiaFunds at Scotiabank*.	TRANSACTION COSTS	A broker or other intermediary will typically charge a commission to buy or sell ETFs. If actively traded, transaction costs associated with ETFs could offset lower MERs.

*Some Funds may charge a fee of 2% of the amount that you sell or switch, if sold or switched within 31 days of buying them.

OTHER CONSIDERATIONS

Mutual Funds		ETFs
Mutual funds unit prices are calculated at the end of each trading day.	UNIT PRICE	Share prices fluctuate throughout the trading day like stocks.
Investors can automatically reinvest distributions into additional units of a fund.	AUTOMATIC REINVESTMENT	Usually, distributions are paid in cash, leaving the investors to reallocate the proceeds, possibly at an additional cost. Some may offer dividend reinvestment plans.
As low as $50 through a Pre-Authorized Contribution (PAC) plan.	MINIMUM INVESTMENT AMOUNT	Typically in board lots (100 shares), although smaller (odd lots) can be transacted.
Mutual funds may be bought or sold daily.	LIQUIDITY	ETFs may be bought or sold throughout the trading day. In the event of low trading volumes in the underlying stocks an ETF is tracking, a larger difference between the selling and buying price may arise (bid-ask spread).

What to Choose?

When trying to decide which is best for you, here are some considerations:

Mutual fund investors typically:

- Prefer professional portfolio managers to select and manage their investments as part of a diversified strategy
- Have a longer-term focus
- Have limited or no time to actively watch their investment portfolio
- Plan to reinvest dividends automatically
- Want to Dollar Cost Average by investing small amounts or at regular intervals
- Prefer lower transaction costs (such as no-load funds)

Investors in ETFs typically:

- Prefer to track the performance of an index or sector without the help of active portfolio management
- Tend to be active traders
- Want to buy and sell in "real-time" throughout the trading day
- Want complete transparency on portfolio holdings
- Prefer lower expenses for ongoing management
- Would rather deal with a broker or other intermediary in a commission-based environment

The Bottom Line

ETFs can offer you another way to invest. But depending on your long-term needs, you may not be able to take advantage of its benefits like lower management costs, real-time valuation and tax efficiency.

While both mutual funds and ETFs offer specific advantages, it's important to understand their differences so you can make informed investment decisions.

Contact your *Scotia* advisor today

For more information or to discuss what options are best for you or visit us at **scotiafunds.com**

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