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

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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
Bought and sold	On an exchange throughout the day	Through the mutual fund companies
Sales charges	None, though ordinary brokerage commissions apply	May have sales loads, purchase and/or redemption fees
Minimum investments	None, an investor can buy one share	May have high minimum investments
Expense ratios	Traditionally low	Dependent on management styles
Liquidity	Intraday	End of the day

Trading flexibility	• Ability to trade intraday
	• Special trading orders are possible:
	  • 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
		• Trades only executed once per day
		• Special trading not possible
		• Trading frequency restricted

Consequences of purchases and sales	Purchases and sales of shares on the secondary market generally	Purchases and redemptions of a large number of shares can
Security prices	• do not affect security prices	• impact the underlying security prices as the fund buys or sells shares • impact the fund's NAV and returns
Tax implications	• do not impact tax efficiency • do not trigger capital gains or losses on the underlying securities[1]	• trigger capital gains or losses on the underlying securities • affect the fund's tax efficiency
Transparency[2]	Fund holdings published daily	Fund holdings typically published quarterly
Portfolio investments	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.* [1]Investors will be affected by tax consequences triggered by capital gains. [2]Holdings are displayed daily on the website.

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