



# ETFs vs. mutual funds

## Selecting the right vehicle for your investment needs

Any decision about how to invest is not complete without consideration of the type of investment vehicle to be used. While both exchange-traded funds (ETFs) and mutual funds offer access to professionally managed, diversified portfolios, the decision over which to use requires thoughtful deliberation because there are distinct differences between the two.

# ETFs vs. mutual funds: A comparison

	ETFs	Mutual funds
<b>Overview</b>	<ul style="list-style-type: none"> <li>All ETFs trade on an exchange and may require a brokerage account to buy and sell shares.</li> <li>Investors must place a trade order each time they want to buy or sell more shares, but can typically set up dividend reinvestment through their brokers.</li> </ul>	<ul style="list-style-type: none"> <li>Mutual fund investing may not require a brokerage account because investors can often transact directly with the mutual fund.</li> <li>Investors can set up a regular purchase program as well as automatic reinvestment of capital gains and dividends.</li> </ul>
<b>Investment approach</b>	<ul style="list-style-type: none"> <li>Funds are continuously priced throughout the trading day.</li> <li>Shares are purchased in whole.</li> <li>Investors can short ETFs and buy shares on margin.<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Mutual fund shares are priced once a day after the markets close.</li> <li>Partial shares may be purchased.</li> <li>Investors cannot buy mutual funds on margin or set price limit orders.</li> </ul>
<b>Accessibility</b>	<ul style="list-style-type: none"> <li>Holdings are generally disclosed daily.</li> <li>ETFs do not have an investment minimum; however, shares must be purchased in whole.</li> </ul>	<ul style="list-style-type: none"> <li>Holdings are generally disclosed quarterly with a 30-day lag. However, some funds disclose holdings monthly.</li> <li>Many have an initial purchase investment minimum.</li> <li>Some funds have a back-end sales charge or a contingent redemption fee when exiting.</li> </ul>
<b>Tax considerations</b>	<ul style="list-style-type: none"> <li>Generally considered more tax efficient vehicles because of product structure and in-kind creation/redemption mechanism.<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>Generally less tax efficient because holdings are sold to meet redemptions and rebalance the portfolio, potentially resulting in taxable gains.</li> </ul>
<b>Associated costs</b>	<ul style="list-style-type: none"> <li>Trade with varying degree of spread.</li> <li>Might trade above (premium) or below (discount) the net asset value (NAV).</li> <li>Operating expenses and potential commissions.</li> </ul>	<ul style="list-style-type: none"> <li>Do not have a bid-ask spread as they're not traded on exchanges throughout the day.</li> <li>Always transact exactly at their stated NAV.</li> <li>Operating expenses and potential transaction fees.</li> </ul>



## Summary

Investors should evaluate an investment based on its investment objectives, associated risks, and fit with their time horizons. They should also consider their tolerance of market volatility.

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ETF Know:How is a full-spectrum curriculum of ETF tools, resources, and insights created for all levels of ETF expertise. This educational program offers you a 360-degree view of ETF investing, with tactical steps to help support your business—from client engagement to portfolio implementation.

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**Investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the ETF. Shares of ETFs are bought and sold at market price, which may be higher or lower than the net asset value (NAV).**

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<sup>1</sup> Short sells and buys to cover certain non-Schwab ETFs within your Schwab brokerage account may be subject to commissions and other fees and shares may not be immediately marginable. Short selling is an advanced trading strategy involving potentially unlimited risks, and must be done in a margin account. Margin trading increases your level of market risk. For more information please refer to your account agreement and the Margin Risk Disclosure Statement.

<sup>2</sup> The creation/redemption of ETF shares occurs when there is a supply/demand imbalance for a specific ETF. This helps ensure the market price of an ETF remains close to the portfolio net asset value (NAV). ETF shares are created/redeemed by financial institutions (Authorized Participants (APs)) that work together with an ETF provider to exchange securities and/or cash for ETF shares. The process is potentially tax efficient because ETFs can shed shares with a low cost basis and retain shares with a high cost basis.

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