

# Six Reasons ETFs Are Better Than Mutual Funds

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Exchange traded funds (ETFs) can give your portfolio an edge and the excessive growth of the industry is proof of their success. [Dan Wiener and Jim Lowell for Index Universe list](#) six advantages that ETFs can provide for you.

1. **Portfolio Construction.** With more than 600 different ETFs available, and sector-specific funds that give exposure to a commodity or industry, the choices are endless. ETFs can now serve as core long-term holdings and time-sensitive bets on specific industries or sectors.
2. **Low Expenses.** The less you pay out in fees, the more money that is left to grow in your account. ETFs are a cost-effective investments which invest in the same indexes as mutual funds.
3. **Diversification.** A diverse portfolio is a complete portfolio. By diversifying your investments over a broad range of investment styles and asset classes you can maintain a complete portfolio over a long range of time.
4. **Transparency and Style Purity.** You know exactly what your money is going into when investing in an ETF. The stocks and bonds that track the index are the ones you own and the guesswork is taken out of your portfolio.
5. **Tax Savings.** ETFs do not adhere to the same tax requirements that mutual funds do. Income and realized gains are passed along to all shareholders of an actively managed mutual fund along with capital gains. Also, ETFs have very little turnover so they distribute very little in income to investors.
6. **Risk Management.** The structure of an ETF can help control portfolio risk. An ETF looks like a fund but acts like a single stock, so it allows investors to short shares of ETFs, as well as put and call options and use stop limit orders. This can help reduce portfolio volatility.