



How to Choose ETFs and Have a Stress-Free Portfolio

What you need to know about selecting Exchange Traded Funds so that you don't need to watch the stock market all day

Just like individual stocks, ETFs are volatile. If you own equity ETFs, that means you own stocks. The key benefit of the ETF is that you don't have to pick the stocks, and with one simple trade you can own a piece of a lot of different stock. Instant diversification! But how can you choose? If you're interested in managing your own portfolio of ETFs, and if you're ready to take on the risk of possibly losing money, think about these points BEFORE you invest:

1. Size matters with ETFs: Lots of companies package a bunch of stocks into an ETF, but sometimes there's not enough interest in that security for a lot of people to invest. You could then have problems with poor liquidity and wide spreads.
2. Broad or narrow: Some funds may track huge indices that have hundreds or thousands of stocks in them. Others may focus on small areas like a specific industry or geographic area.
3. Tracking Difference: For any of a number of reasons, it's sometimes hard for a fund to accurately track the underlying index. If an index goes up 6%, for example, but the fund that tracks it only goes up 5%, it would have a tracking difference of -1%. Causes of tracking difference are normally the expense ratio, and tracking/rebalancing costs.
4. Get more than one: Sometimes people just buy the most popular ETF out there, the one that tries to track the S&P 500. But that's not enough diversification to have a well-rounded portfolio. There are thousands of ETFs in the world, so you should probably own at least five or ten to spread out the risk.

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