WHAT IS ETF

Capademy Tutorial Series

What is ETF Trading?

An ETF is an investment fund that tracks a commodity, an index or a basket of assets. The basket as a whole is made available to trade in a market and is known as an ETF.

Although it is similar to mutual funds in many ways, there are some differences too. They differ from mutual funds because the shares are traded like a common stock on an exchange.

The price of an ETF share will keep on fluctuating as they are bought and sold. The largest among them has a higher average volume and low fees than mutual funds. It makes them an attractive alternative for an investor.

Mainly traders use ETFs as a hedging tool to reduce risk from volatile price action. Let's understand this with an example.

Suppose our friend Vikas wants to trade in Apple shares CFDs. In this case, his profit and loss will be determined entirely by a change in the price of the apple, whereas if Vikas want to hedge. He needs to trade share of other tech companies such as Google, Facebook, Amazon or simple by trading a tech ETF.

What is an ETF made of?

Generally, ETFs are created by banks in the form of a detailed plan to the security and Exchange Commission. Much like any other CFD instrument, ETF traders also try to benefit from the price movement.

There are various types of ETFs. Such as index ETF which tracks the performance of a particular index. Industry based ETF which track the performance of a particular industry.

There are also commodity-based ETFs which are backed by a physical commodity such as gold, silver. Some of the most popular ETFs are SPDR S&P 500 ETF, SPDR gold ETF.

Advantages of ETFs

Investing in ETF helps to diversify your capital among a basket of stock. For example, if you invest in a single stock. If the price of that stock fall, you can lose a big chunk of your capital whereas if one stock in your ETF falls the impact will be very less as gains from other stocks will limit the losses.

As they don't need active management, they have a lower expense ratio, which can help you to gain greater returns over long a term.

It is easier to track and invest in ETF compared to 100 different stocks.

How to trade ETFs

There are hundreds of ways to trade ETFs, but the easiest way to trade ETF is via CFDs. Follow these simple steps to trade ETFs.

Step One– Select an ETF (it can be an index ETF, Commodity index, or industry-focused index)

Step Two– Select the trade size

Step Three– base on your analysis decide from which side you want to trade. It means going long or short (BUY or SELL).

Step Four– Place an order.

See this is so simple and convenient. Now that you have an open position you can choose to exit or close this position at any time, or you can automate your trade with the help of features like Stop Loss and Take profit options, the same way you would do with any other instrument.

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