What Is an ETF?

An exchange-traded fund (ETF) is a type of security that involves a collection of securities—such as stocks—that often tracks an underlying index, although they can invest in any number of industry sectors or use various strategies. ETFs are in many ways similar to mutual funds; however, they are listed on exchanges and ETF shares trade throughout the day just like ordinary stock.

Some well-known example is the SPDR S&P 500 ETF (SPY), which tracks the S&P 500 Index. ETFs can contain many types of investments, including stocks, commodities, bonds, or a mixture of investment types. An exchange-traded fund is a marketable security, meaning it has an associated price that allows it to be easily bought and sold.

KEY TAKEAWAYS

- An exchange-traded fund (ETF) is a basket of securities that trade on an exchange, just like a stock.
- ETF share prices fluctuate all day as the ETF is bought and sold; this is different from mutual funds that only trade once a day after the market closes.
- ETFs can contain all types of investments including stocks, commodities, or bonds; some offer U.S. only holdings, while others are international.
- ETFs may offer low expense ratios and fewer broker commissions than buying the stocks individually.
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An ETF is called an *exchange-traded* fund since it's traded on an exchange just like stocks. The price of an ETF’s shares will change throughout the trading day as the shares are bought and sold on the market. This is unlike mutual funds, which are not traded on an exchange, and trade only once per day after the markets close.