How ETFs work

An exchange-traded fund (ETF) is an investment fund that holds a collection of investments, such as stocks or bonds, owned by a group of investors and managed by a professional money manager. ETFs are similar to a mutual fund but they trade on a stock exchange.

4 Things to know

1. Risk

The level of risk and return depends on what the ETF invests in. You can lose money investing in ETFs.

2. Past performance

How an ETF has performed in the past can't tell you how it will perform in the future. But past performance can help you determine how volatile or risky the ETF's returns may be.

3. Buying and selling ETFs

You buy and sell ETFs on a stock exchange, in a similar way to buying and selling stocks.

4. Fees

You typically pay commissions and management fees to invest in ETFs. There may also be costs to set up an investment account.

How to make money on an ETF

Some ETFs pay out the money the ETF makes to investors. These payments are called distributions. Here's what happens with your distributions:

1. The cash stays in your account until you tell your investment firm how you want to invest it. You may have to pay a sales commission on what you buy.
2. Your investment firm may offer a program to automatically buy more ETF units or shares for you. You likely won't pay a sales commission on these automatic purchases.

How ETFs are taxed

You'll pay tax on:

- any capital gains you make from an ETF when you sell it, and
- any distributions you receive from the ETF.

Learn more at GetSmarterAboutMoney.ca

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