What Are Exchange-Traded Funds (ETFs)?

Worksheet

An ETF (exchange-traded fund) is a basket of securities that trades on a stock exchange during market hours, combining the diversification of a mutual fund with the flexibility of a stock.

Questions

1. What is an ETF?
A) A single company's stock
B) A fund that trades like a stock and holds multiple assets
C) A bond issued by a company
D) A savings account at a bank

2. What is a key advantage of ETFs over individual stocks?
A) Higher returns guaranteed
B) Instant diversification with lower cost
C) No risk of losses
D) Only professionals can invest

3. How often can you trade an ETF?
A) Once per day
B) Only on Fridays
C) Anytime during market hours
D) Only at year end

4. An S&P 500 ETF tracks an index. This is called:
A) Active management
B) Passive management
C) Day trading
D) Swing trading

5. Sarah wants to own 500 different stocks but doesn't have enough money. How can an ETF help?

6. A bond ETF holds 50 corporate bonds. What's the advantage over buying bonds directly?

7. An S&P 500 ETF tracks the S&P 500 index. What does this mean for your investment?

8. Define: What does ETF stand for?

9. Define: How are ETFs different from mutual funds?

10. Define: What are the main benefits of ETFs?

Answer Key

1. B) A fund that trades like a stock and holds multiple assets — An ETF bundles multiple securities and trades on stock exchanges during market hours.
2. B) Instant diversification with lower cost — ETFs let you own many assets in one purchase, reducing risk through diversification.
3. C) Anytime during market hours — ETFs trade continuously during stock market hours like regular stocks.
4. B) Passive management — Tracking an index with minimal changes is passive management — lower fees than active funds.
5. An ETF like QQQ bundles 100+ tech stocks into one fund. Sarah buys one ETF share for ~$400, gaining exposure to all of them. She gets instant diversification without buying each stock individually.
6. Buying individual bonds requires 1,000+ per bond. A bond ETF might cost50/share but hold all 50 bonds. Investor gets diversification and lower costs through pooled assets.
7. The ETF holds all 500 companies in the index in proportional amounts. Your return mirrors the index's performance. You get broad U.S. market exposure in one purchase.
8. Exchange-Traded Fund — a fund that trades on a stock exchange like a stock.
9. ETFs trade during market hours (like stocks); mutual funds trade once per day at close.
10. Low cost, diversification, tax efficiency, and easy trading.