What are Mutual Funds and ETFs?

Worksheet

Mutual funds are professionally managed investment pools sold directly by fund companies with active daily pricing, while ETFs are exchange-traded funds that track an index and trade like stocks with prices changing throughout the day.

Questions

1. Mutual funds are priced at what frequency?
A) Every minute
B) Once daily (NAV)
C) Every hour
D) Weekly

2. Most ETFs follow which strategy?
A) Active trading to beat the market
B) Passive index tracking
C) Speculation
D) Day trading

3. Why are ETFs generally more tax-efficient than mutual funds?
A) They have fewer trades and distributions
B) Taxes don't apply to ETFs
C) Fund managers are better
D) Lower stock prices

4. An investor has $20,000 in a fund with 0.50% expense ratio. Annual cost?
A) $50
B) $100
C) $200
D) $500

5. An investor with $5,000 buys a mutual fund tracking the S&P 500. What is one advantage over buying 500 stocks individually?

6. ABC ETF trades at 100/share and has an expense ratio of 0.10% annually. How much does an investor holding10,000 pay in annual fees?

7. Fund X is an actively managed mutual fund charging 1.2% annually. Fund Y is a passively managed ETF tracking the same index at 0.15%. Over 30 years, how much more does the higher fee cost?

8. Define: What is a mutual fund?

9. Define: What is an ETF?

10. Define: Key difference: pricing?

Answer Key

1. B) Once daily (NAV) — Mutual funds calculate Net Asset Value (NAV) once daily after market close.

2. B) Passive index tracking — The majority of ETFs are passive, tracking indices like the S&P 500.

3. A) They have fewer trades and distributions — Passive index tracking and lower portfolio turnover mean fewer taxable distributions.

4. B) \$100 — 20,000 × 0.50% =20,000 × 0.005 = \$100

5. One mutual fund purchase gives instant diversification across ~500 companies vs. buying 500 stocks = transaction costs, research time, and 500 dividends to track Advantage: lower cost, instant diversification, passive management

6. Annual fee = Investment amount × Expense ratio = 10,000 × 0.0010 =10 per year

7. Fee difference = 1.2% − 0.15% = 1.05% annually On 10,000 invested, extra annual cost =105 Over 30 years (simplified) ≈ \$3,150 more in fees (not including compound growth)

8. A pooled investment vehicle where money is managed by professionals to buy a diversified portfolio.

9. Exchange-traded fund — a pooled investment traded on stock exchanges, often tracking an index passively.

10. Mutual funds price once daily (NAV); ETFs price continuously during trading hours.