

## Exchange Traded Funds (ETF)

..Traded volume should be the major criterion that is used while deciding on investment in ETFs. Higher volume ensures lower spread and better pricing to investors...

..Tracking error, though it should be considered, is not the deciding factors as variation among funds is not huge...

..Volumes are higher only in Benchmark ETFs and tracking error is also lowest at 0.04%. Therefore, it is our top pick for investors wanting Nifty linked returns...

- In India there are three kinds of ETFs available :
  - Equity Index ETFs,
  - Liquid ETFs and
  - Gold ETFs
- An equity index ETF tracks a particular equity index such as the BSE Sensex, NSE Nifty, Nifty Junior, etc
- An equity index ETF scores higher than index funds on several grounds. The expense of investing in ETFs is relatively less by 0.50-1.00% in comparison to an index fund. Expense ratio for ETFs is in the range of 0.50-0.75% excluding brokerage while for index funds the expense ratio varies in the range of 1.0-1.5%. However, brokerage (which varies) is applicable on ETFs while there are no entry loads now on index funds
- The tracking error, which explains the extent of deviation of returns from the underlying index, is usually low in ETFs as it tracks the equity index on a real time basis whereas it is done only once in a day for index funds
- ETFs also provide liquidity as they are traded on stock exchanges and investors may subscribe or redeem on an intra-day basis also. This is not available in index funds, which are subscribed/redeemed on closing NAV basis only
- There are over 400 ETFs traded globally. ETFs are transparent and cost efficient. The decision on which ETF to buy should be largely governed by the decision of getting exposure in that asset class

### Top Recommended ETF

Scheme Name	6M	1Yr	3Yr
Nifty Benchmark Exchange Traded Scheme - Nifty BeES	2.98	31.82	6.87
S&P CNX Nifty	2.40	31.01	6.13

Source: Crisil Fund Analyser, , ICICIdirect.com Research

Note : Returns above one year are Compounded Annualised return as on July 15, 2010