

ETF Terms Word Search

Answer Key

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■ 10 Terms & Definitions

<p>EXPENSE</p> <p>The annual fee charged by an ETF expressed as a percentage of assets — the expense ratio. It is automatically deducted from the fund's returns each year. Lower expense ratios mean more of the fund's growth stays in your pocket. Vanguard and Fidelity pioneered ultra-low expense ra</p>	<p>TRACKING</p> <p>Tracking refers to how closely an ETF follows the performance of its benchmark index. Tracking error is the difference between the ETF's return and the index return over the same period. A well-managed ETF has minimal tracking error, meaning investors receive returns very close t</p>
<p>YIELD</p> <p>The yield of an ETF represents the income it generates, expressed as a percentage of its current price. For bond ETFs, yield reflects interest payments. For equity ETFs, it reflects dividend payments. A higher yield means more income, but very high yields can sometimes signal ele</p>	<p>LIQUIDITY</p> <p>Liquidity describes how easily an ETF can be bought or sold without significantly affecting its price. Highly liquid ETFs have large trading volumes and tight bid-ask spreads, meaning you can enter and exit positions quickly at fair prices. Less liquid ETFs may have wider spreads</p>
<p>PASSIVE</p> <p>A passive ETF tracks an index without a fund manager actively selecting stocks. Instead of trying to beat the market, passive ETFs simply replicate it. This approach results in lower fees and historically strong performance compared to most actively managed funds, which rarely ou</p>	<p>SECTOR</p> <p>A sector ETF focuses on a specific segment of the economy, such as technology, healthcare, energy, or financials. These funds allow investors to overweight parts of the market they believe will outperform while maintaining diversification within that segment. Sector ETFs are ofte</p>
<p>BASKET</p> <p>An ETF basket is the collection of underlying securities that the fund holds. Each ETF publishes its basket daily so investors can see exactly what they own. The basket is the foundation of the fund's value — when you buy an ETF share, you are buying proportional exposure to all</p>	<p>NAV</p> <p>NAV stands for Net Asset Value — the per-share value of an ETF calculated by dividing the total value of the fund's holdings by the number of outstanding shares. ETFs trade on exchanges throughout the day, so their market price can differ slightly from NAV. Authorized participant</p>
<p>SPREAD</p> <p>The bid-ask spread is the difference between the highest price a buyer will pay and the lowest price a seller will accept for an ETF. A narrow spread indicates high liquidity and low transaction costs. A wide spread means it costs more to buy and sell, which can erode returns — e</p>	<p>REBALANCE</p> <p>Rebalancing is the process of realigning the weightings of assets in an ETF or portfolio to maintain a desired level of asset allocation. Index ETFs automatically rebalance when their underlying index changes its components. For investors, periodic rebalancing of a portfolio cont</p>