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WEALTH OFFSHORE

EXCHANGE TRADED FUNDS

Instead of buying individual shares such as Apple, Microsoft or Coca-Cola, investors can buy an Exchange Traded Fund (ETF). An ETF gives you exposure to a basket of shares through a single investment. In simple terms, it allows you to buy many companies at once.

An ETF provider (such as iShares, Vanguard or Satrix) creates a fund that owns a group of shares. These shares might represent an entire market (like the S&P 500), a specific sector (like technology) or a theme (like renewable energy). The ETF itself then trades on a stock exchange, just like a normal share.

When you buy shares in a single company, you become a part-owner of that one business. When you buy an ETF, you own units in a fund that itself owns many companies. Through one transaction, you gain diversified exposure.

ETFs are often described as “passive” investments. This simply means that most ETFs aim to track an index rather than try to outperform it. They follow a set of rules. For example, an S&P 500 ETF will own the same companies, in the same proportions, as the S&P 500 index.

One of the main advantages of ETFs is cost efficiency. Because they follow rules instead of relying on expensive research teams, fees are usually lower. They also make diversification easier, especially for investors with smaller amounts of capital.

However, ETFs are not risk-free, and we will discuss this in a future note.

Some argue that professional portfolio managers should not include ETFs because clients can buy them themselves. We disagree with that view. ETFs are powerful tools when used thoughtfully within a broader portfolio strategy. There are hundreds of ETF’s to choose from and choosing the correct one to suit a specific portfolio strategy requires an active decision.

At Wealth Offshore, we use ETFs where they make sense. They allow us to build diversified portfolios efficiently, particularly for clients who are starting their investment journey. As portfolios grow, we may gradually introduce more concentrated opportunities where appropriate.

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The key is not whether an investment is "passive" or "active." The key is whether it fits the investor's objectives, time horizon and risk tolerance. Like any tool, ETFs are effective when used deliberately and within a disciplined framework

Until the next note,

Matt Swart, CFA
Director, Wealth Offshore

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