Secret Money Business for mums

LESSON 2 - CASE STUDY

How to start investing with ETF's

What is 'Passive Investing'

Passive investors tend to take a buy and hold approach to investing with an investment methodology that focuses on investing for the long term. One of the most common types of investments used by passive investors is an Exchange Traded Fund (ETF).

WATCH: Click here to watch this simple 2 minute video explanation

What is an ETF?

ETFs (Exchange Traded Funds) track a market index rather than taking bets on individual companies. They provide direct exposure to a wide range of investments in their asset class such as Australian shares, international shares, bonds or metals.

For this reason, their management fees are much lower than typical 'active' fund managers.

Why are ETF's an attractive to busy families who want to invest for the future?

As a mum you know the importance of investing for your families financial future.

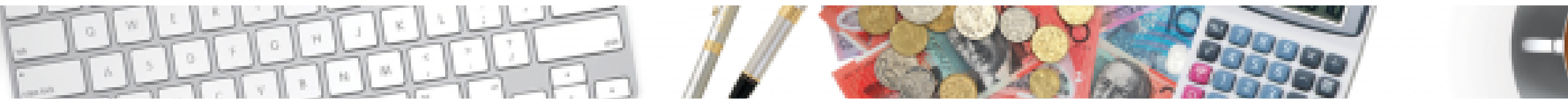
You know you need to invest for the future but you are time poor and likely unsure how to select your investments and manage them ongoing.

Building an investment portfolio then that takes a 'passive' approach to it's investment style is a great place to start your investment journey.

It means you are able to generate investment returns on par with the share market as a whole for little cost (compared with actively managed funds) and little time investment on your part is required.

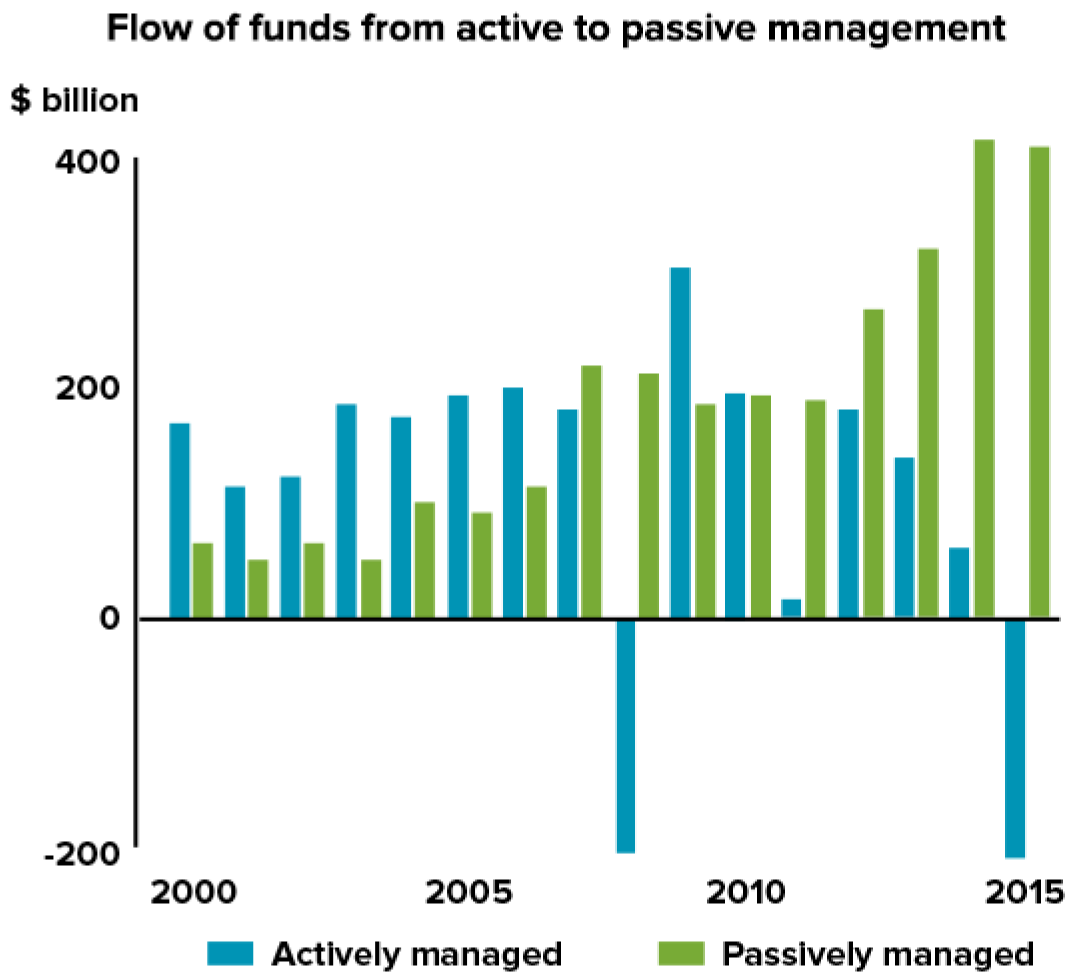
Even famous investor Warren Buffet agrees....

That passive investing is the smartest way to invest. He has gone on record saying that if his wife survives him, his estate plan will recommend keeping 90% of her inheritance in a passive index fund, with the rest in government bonds.



And he isn't the only one...

The graph below from Stockspot demonstrates how hundreds of billions of dollars have been moving out of active funds and into passive index funds over the past 15 years.



Why are they so popular then?

Passive investing is becoming more popular as investors realise most active funds aren't achieving the returns above market they are chasing even though they are more expensive because of that same promise.

QUICK RECAP:
Actively managed funds aim to beat the returns of a given investment market. Passively managed funds, on the other hand, are designed to mimic the returns of a specific market as measured by a particular index like, for instance, the S&P/ASX 300.

What are the returns like between the two...

Standard & Poor's (S&P) SPIVA report is the 'got-to' industry benchmark for comparing returns of actively managed and passively managed funds.

In their latest report, S&P exposed that more than half of actively managed funds underperformed their benchmark across all regions and assets, over 1 and 3 years.

Longer-term results did not show any improvement with 5 and 10-year performance even more disappointing for active managers.

You don't have to buy and sell shares actively to make money in the share market.

That is the misconception that many women have about investing in shares.

They feel they don't know enough about investing in shares to decide where to invest their money. And that is probably true.

But buying and selling shares and picking stocks is NOT the only way to invest in the share market.

As you can see, there is a strong case for taking a passive approach to investing for the average mum and dad investor.

This way you allow the long term growth of the economy, the companies that operate within that economy and ultimately you as a shareholder in those companies to provide you with a share of that growth via a return on your investment.