恒生投資
HANG SENG INVESTMENT

ETF 101: How to choose ETFs 12/07/2023

What should investors pay attention to when choosing a suitable product from the same type of ETFs?

The first point is to consider the asset manager’s experience, scale and investment expertise. A professional and experienced investment team will effectively manage the ETF’s cash flows and respond to the index changes while minimizing costs. As a result, the ETF performance could be tracked as close as possible to the index.

The second point is the ability to track the performance of the index. The ability to track the performance of an index can be measured by the tracking difference and tracking error. Tracking difference represents the gap between the performance of the ETF and the index. The smaller the difference, the closer to the index's performance and achieving the relevant investment objectives better. Tracking error measures the volatility of the return differences between the ETF and the index, reflecting how close the ETF can track its index consistently. Same for both measurements, the lower the number, the better.

The third point is the Total Expense Ratio (TER). The TER refers to the sum of a ETF's costs, including management fees, transaction fees, and administrative fees etc. ETFs with lower TER can provide returns closer to the index and are more suitable as a long-term investment.

After learning about how to choose an ETF, we will walk through more details about ETFs next time. Please stay tuned!

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