EXCHANGE-TRADED FUNDS

An exchange-traded fund (ETF) owns a basket of stocks that mirrors the composition of a market index. An investor buys ETF shares exactly the way you buy shares of stock, not from a fund company, but on a stock exchange, with the help of a broker, for which you are charged a small commission.

ETFs trade throughout the day as ordinary stocks, allowing investors to use the same strategies used with other stock investments, including market orders, limit orders, buying on margin, and short selling.

Index-linked ETF market prices should trade in line with their underlying net asset values (NAV).

This enables investors to take advantage of any disparity between the market price and the underlying NAV, which in turn keeps the two trading close to one another. Actual NAV for most ETFs is calculated daily at the close of trading using the closing market value of the underlying portfolio of ordinary shares, plus income, less expenses.

Unlike index mutual funds, ETFs are structured as open-end investment management companies continuously using new shares and redeeming existing shares.

In April of 2004, Barclay's Global Investors launched two Exchange Traded Funds: iShares NYSE 100 (NYSE:NY) and iShares NYSE Composite (NYSE:NYC) Index Funds. These are the first Exchange Traded Funds based on the New York Stock Exchange branded indexes.

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