

# Exchange Traded Funds: a stable option in an unstable investing environment?

The casual trader may be forgiven for feeling slightly deceived by the stock market over the past couple years, with stock market valuations falling off the cliff for certain companies, relative to their IPOs.

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As an example, the share price of automobile ecommerce site Cazoo has dropped almost 90% at the time of writing to 0.73USD, after an inflated IPO in August 2021.

Digital-first health service Babylon Health suffered a similar fate, currently resting just above 1USD despite listing at 10USD in October 2021.

Diversifying one's portfolio has always been advised to those looking to invest; however, plummeting stock prices such as those listed above discourage investing full stop.

A different approach is needed to ensure that amateur traders have the best chance of capitalising on market gains.

One answer to investment instability is exchange traded funds, or ETFs.

# What is an exchange traded fund?

An ETF is a *type of investment fund* that is traded on the stock market. Each ETF is designed to track the performance of a specific stock market or other financial index.

For example, the Vanguard FTSE 100 ETF seeks to mirror the returns of the FTSE 100, an index of the biggest UK shares such as BP, Lloyds Bank, and Tesco.

ETFs are an easy investment choice as they can be bought and sold on the stock market like any other share, hence the name 'exchange traded'; however, their diversified nature reduces the risk of investment and makes them ideal for inclusion in a long-term portfolio.

Instead of investing in the future of a single company, an ETF allows an investor to spread their money across potentially hundreds of different shares or bonds, making one's portfolio less volatile and less liable to swings in value.

## Stability as strategy

It is important that the bulk of your portfolio is invested with a long-term strategy if passive income is an intention of your investment plan.

As we have seen with the Russian invasion of Ukraine, unforeseen events can hit the stock market hard, reflected in a deep devaluation of one's portfolio.

To combat short-term instability, investors should look long-term to achieve their investment goals.

And with the ETF market booming, with investors adding \$1T into ETFs in 2021 as global assets reached \$10T for the first time, exchange traded funds are quickly becoming an important facet of long-term investing strategy, combining diversification, broad investment choice, and low fees.

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