Exchange Traded Funds (ETFs)

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Over nearly a quarter of a century, ETFs have become one of the most popular passive investment vehicles among retail and professional investors due to their low transaction costs and high liquidity. By the end of 2016, the market share of ETFs topped over 10% of the total market capitalization traded on US exchanges, while representing more than 30% of the overall trading volume. ETFs revolutionized the asset management industry by taking market share from traditional investment vehicles such as mutual funds and index futures. Because ETFs rely on arbitrage activity to synchronize their prices with the prices of the underlying portfolio, trading activity at the ETF level translates to trading of the underlying securities. Researchers found that while ETFs enhance price discovery, they also inject non-fundamental volatility to market prices and affect the correlation structure of returns. Furthermore, ETFs impact the liquidity of the underlying portfolios, especially during events of market stress.

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SOURCE: Market Watch

Read the research here.

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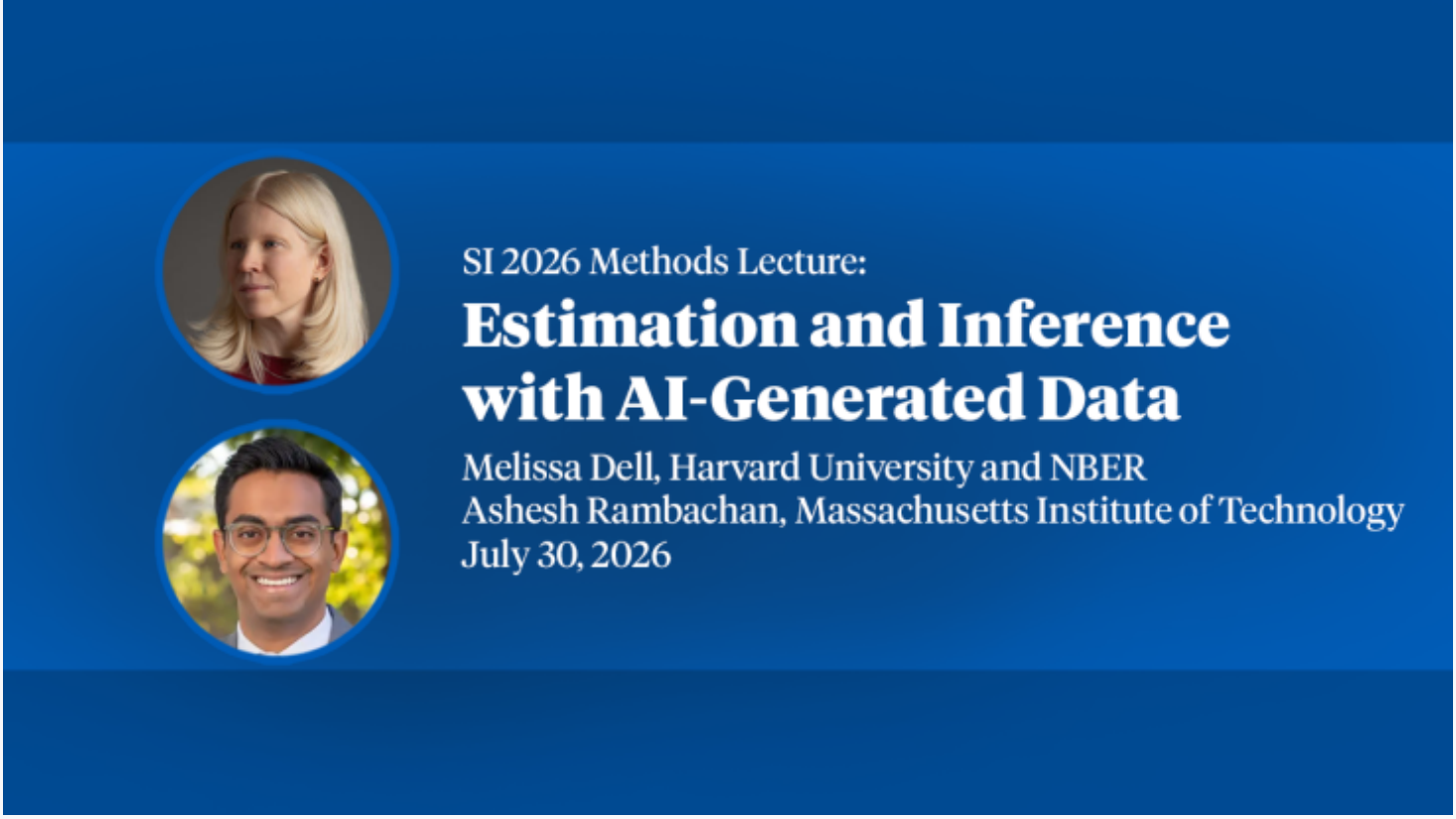


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