

SHARES, ETPs & MANAGED FUNDS

A side-by-side comparison

Features	Listed Shares	Exchange Traded Products (ETPs)	Traditional Managed Funds
What is it?	A share is a part ownership of a business.	A type of security, usually a basket of investments such as shares, property, commodities or currencies. Exchange Traded Funds (ETFs) and Listed Investment Companies (LICs) are types of ETPs.	A managed fund involves pooling together money from different investors into a fund that is invested and controlled by a professional investment manager. Funds differ in the types of assets you can invest in.
Where is it traded? How do I buy or sell?	In Australia, it is usually on the Australian Stock Exchange (ASX). Shares can be bought or sold to other investors at market price by any ASX broker, during ASX opening hours. Generally, a company does not buy or sell their own shares.	In Australia, it is usually on the Australian Stock Exchange (ASX). ETPs can be bought or sold at market price by any ASX broker, during ASX opening hours. The price is based on the price of the underlying stocks/assets.	Internally by the fund manager. A buy or sell authority must be submitted to the fund manager. Then you wait for the order to be executed at the price that they determine, based on the value of the underlying assets. From time to time, fund managers may freeze redemptions (i.e. selling to get your money out).
ASX listing rules?	Must comply with all ASX Listing Rules and Regulations, which include the two (2) day settlement of transactions.	Must comply with all ASX Listing Rules and Regulations, which include the two (2) day settlement of transactions.	As traditional managed funds are unlisted, they do not have to comply with ASX Rules. At the discretion of the fund manager.
What about my capital? How do I know what the price is?	Prices are easily accessible from many websites and apps. Prices vary daily depending on buyers and sellers in the market.	Prices are easily accessible from many websites and apps. Prices vary daily depending on buyers and sellers in the market. Prices are subject to underlying stock prices.	You need to get the price from the individual fund manager (or via their website). Unit values are calculated daily, and change as the market value of the assets in the fund rises and falls.

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<p>How is the price determined? Who decides the price? Transparency and liquidity?</p>	<p>Markets are made up of buyers and sellers, so price is determined by these participants.</p>	<p>Markets are made by the Market Maker, and prices are the buy-sell spreads determined by the market of buyers and sellers of the underlying stocks.</p>	<p>Determined by the Fund Manager. When an investor decides to cash in their units and withdraw money, the fund may have to sell assets to make the money available (provide liquidity). If a large proportion of investors seek to do this at the same time (for example when there is a shock in the market) investors may not be able to convert some or all of their investment immediately into cash. The liquidity of a managed fund is also dependent on the type of underlying assets it invests in. Understanding the true liquidity of a managed fund is important.</p>
<p>General level of prices?</p>	<p>Share prices can go up and down (sometimes dramatically, depending on market sentiment). Watching prices change on a regular basis can be an emotional roller coaster.</p>	<p>As they depend on the underlying stocks, ETP prices go up and down (sometimes dramatically), as the price of the underlying share/asset changes.</p>	<p>Prices are usually posted on fund manager websites. As prices are less readily available, you will be less likely to make emotional decisions based on market sentiment (i.e. less of an emotional roller coaster).</p>
<p>If I sell my investment, when will I receive my funds?</p>	<p>Within two (2) business days of sale, proceeds will be paid into your nominated bank account.</p>	<p>Within two (2) business days of sale, proceeds will be paid into your nominated bank account.</p>	<p>From submitting a sell instruction to funds arriving in your account with the fund manager, can take up to a week. If you want funds deposited into your bank account, you will have to instruct the fund manager. This process can take a few days. From time to time fund managers may freeze redemptions and payments, so funds may not be available until sometime in the future, at the discretion of the fund manager.</p>
<p>Can my funds be frozen so I cannot access my capital?</p>	<p>No, companies must comply with ASX Listing Rules, but prices are subject to market forces.</p>	<p>No, they must comply with ASX Listing Rules, but prices are determined by the price of the underlying shares/assets, and subject to market forces.</p>	<p>Yes, at the discretion of the fund manager. Most funds have this ability written into their Product Disclosure Statements. Although this is an extreme measure, in times of economic hardship or market shocks (such as the GFC), fund managers can freeze unitholder redemptions. When times are good this is rarely a problem, but in times of turmoil it can be disastrous (no access to capital or income from that investment). You may not be able to convert your investment to cash when you need to.</p>
<p>Can I decide how much to buy or sell?</p>	<p>Yes.</p>	<p>Yes.</p>	<p>Yes, unless funds are frozen as described above.</p>

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How do I get income from my investment?	Usually income is derived from dividends, which are sums of money paid by a company to its shareholders out of its profits (or reserves).	Income is derived from dividends received by the holding of the underlying shares/investments, after deducting their fees. Distributions are then paid to unitholders and vary depending on the nature and objective(s) of the ETP.	Income is derived by underlying dividends/distributions of the investments held. The fund manager then can pay distributions to unitholders after deducting their fees. Distributions vary depending on the nature and objective of the managed fund.
How much can I expect to receive in dividend/distribution income?	Dividend Policy is set by individual companies. You usually know what to roughly expect as regular dividend income, although some companies have cut their dividends without notice.	Distributions generally depend on the nature of the ETP and the amounts received by each of the underlying stocks held in the ETP. Dividend Policy is set by individual companies that comprise each ETP, so you roughly know what to expect.	Fund Managers determine how much is paid out as distributions to unitholders.
How often will I get dividend/distribution income?	Usually twice a year (every six months).	Depends on the nature of the ETP. It can be annually, twice a year (every six months), quarterly (every three months), or monthly for some income-focused funds.	Depends on the nature of the Managed Fund. It can be annually, twice a year (every six months) or quarterly (every three months).
Is my income tax effective?	Companies that pay tax in Australia usually pass on franking credits with their dividend payments to shareholders.	Depends on the nature of the ETP. If tax is paid in Australia, usually most of it is passed onto unitholders in distribution payments.	Franking credits can be held within the Fund and passed, not passed or partially passed onto unitholders. There may be unknown tax impacts. Managed funds will not take into account the individual circumstances of investors with respect to any tax implications of a fund.
Can my dividends or distributions be stopped?	Dividends are declared by individual companies, which depends on their profits and dividend policy. Dividends are not guaranteed payments.	Distributions generally depend on the nature of the ETP and the amounts of income or dividends received by each of the underlying stocks held in the ETP. Distributions are not guaranteed payments.	In good times, fund managers usually continue to pay distributions. However, fund managers can freeze distributions, which can be a problem if you are in retirement mode and rely on this income to live. Distributions are not guaranteed payments.
Is my investment managed by professional investors?	You can run your own portfolio or you can engage a professional for ongoing advice.	Can be active or passive (i.e. managed by professionals or just follow an index).	Can be active or passive (i.e. managed by professionals or just follow an index). Investors are relying on the skills of other people and have no control over investment decisions. It is also not uncommon for a fund manager to change during the period over which an investor has placed their money with them.
Can companies go broke?	Yes. If a company goes broke, you are the last in line to be paid, so you might not get your money back. Although blue chip companies rarely do.	Yes. However, ETPs are made up of a basket of investments, so the failure of one asset generally does not have a dramatic effect on the overall price of the ETP.	Yes. However, managed funds are made up of a basket of investments, so the failure of one asset generally does not have a dramatic effect on the overall price of the managed fund.

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Offer diversification?	Only if a diversified portfolio is held.	Yes.	Yes.
Can access a broad range of assets or markets with a relatively small amount of cash?	No, unless a diversified portfolio of stocks is held.	Yes.	Yes.
Allow regular contributions?	No. You must buy in the market.	No. You must buy in the market.	Usually.
Control of investments? Flexibility?	You retain control over your investments. You can buy, sell or switch between investments, incurring a brokerage charge.	You retain control over your investments. You can replicate an index, or you choose an ETP based on your objective for, say, income or growth or international exposure. You can switch between ETPs incurring a brokerage charge.	You rely on the skills of other people and do not control your investments.
Initial fees?	Brokerage is paid on all buy and sell transactions.	Brokerage is paid on all buy and sell transactions.	A small transaction fee is usually charged.
Ongoing fees?	There are no ongoing fees for holding a stock.	Usually between 0.3% to 0.7% for passive or index funds, and up to 1% for actively managed funds. Cheaper than managed funds.	Usually between 2% to 5% depending on the nature of the fund. Returns from managed funds can be affected by fees, so it is important for investors to understand the fees and charges involved and the likely impact on performance.
Paperwork?	Receive Holding Statements and Dividend Statements.	Receive Holding Statements and Distribution Statements.	Usually receive a single annual statement.

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