Exchange traded funds (ETFs) have quickly become one of the most popular investment vehicles among individual and institutional investors worldwide. International ETF providers such as Barclays Global Investors and Vanguard offer a wide range of low-cost index investment options which track broad-based market or country-specific indices, specific asset class strategies and very specific investment themes such as healthcare, technology, biotech, energy, and gold or commodities.

An ETF is a financial instrument, typically a basket of underlying stocks that replicates a specific index, which is listed on a stock exchange and trades like an ordinary share, i.e. unlike collective investments, it is priced and traded intraday. Thus, an ETF provides the diversification and cost benefits of an index fund plus the flexibility of a listed share.

The low cost and tradability of ETFs on stock markets have introduced a host of new investment opportunities. Investors can easily and cost-effectively manipulate their exposure to major investment markets and asset classes. Investors who want to follow more speculative strategies can execute their trading with ease and convenience. For example, if you are bullish about the short-term prospects of gold and commodities, you can buy ETFs that track those markets and be able to sell immediately whenever you want to exit the strategy. Even much more complicated strategies such as short selling can be exercised with relative ease.

South African investors, however, do not (yet) have the full range of ETF opportunities at their disposal and when compared with the international market, the local range is very limited. ETFs can be bought from stock brokers, investment advisors or directly from the ETF suppliers. Alternatively, South Africans can access international ETFs through their legitimate offshore investment allowance.

Nonetheless, the Satrix 40 ETF provides a cost-effective mechanism to gain a well-diversified exposure to the JSE stock market, and serves as an ideal core equity portfolio strategy. Furthermore, investors have the option to purchase ETFs on a recurring basis (savings plan) from as little as R300 per month, which would have been impractical and expensive to implement had they bought the underlying shares. Long gone are those days when the only option to save for your long-term goals were unit trusts or even worse, endowments.

In line with international experience, South Africans can expect more sector-specific or style-specific funds to be developed in future. Ideally, one would like to see the ETFs being introduced across the full asset class spectrum (equities, bonds, properties and cash). Thereby, the investor's only real concern should be about the asset class mix, which in turn should be directed by a thorough and continuous risk profile analysis. A greater amount of time and effort should be spent on such a process, rather than the popular "game" of which actively-managed funds and managers to select in your investment portfolio, which in the end is of lesser importance and probably a loser's game.