

INVESTMENT PRODUCTS

Comparing Mutual Funds and ETFs

Detailed practice, calculation, decision-making, and assessment

GRADES 9-12	TIME 2 x 42 min	GROUPING I / pairs / whole	PRODUCT Fund comparison recommendation
YOUR CHALLENGE Read two fictional fund summaries, calculate shares and returns, compare how mutual funds and ETFs trade, and identify the research needed before choosing either one.			

Two Ways to Own a Fund Portfolio

Mutual funds and exchange-traded funds, or ETFs, pool money from many investors and hold a portfolio of investments. Each share represents part ownership of that portfolio. Their structures and trading methods differ.

Feature	Mutual fund	ETF
Buying and selling	Orders generally execute at the next calculated net asset value, or NAV.	Shares trade on an exchange at market prices during the trading day.
Diversification	May hold many investments.	May hold many investments.
Management	May be active or index-based.	May be active or index-based.
Costs	May have operating expenses and shareholder fees.	May have operating expenses plus trading-related costs.
Price	NAV calculated after the market closes.	Market price can differ from NAV during the day.
READ FIRST A fund label does not reveal its holdings, risk, strategy, fees, or performance. Read the prospectus and current fund information.		

Part 1 - Read Two Fictional Fund Summaries

Feature	Fund M - mutual fund	Fund E - ETF
Investment focus	Broad U.S. stock index	Broad U.S. stock index
Purchase price or NAV	\$25.00 NAV	\$50.00 market price
Expense ratio	0.40%	0.15%
Minimum or trading unit	\$100 minimum	Whole shares for this activity
Trading	Next NAV	Exchange during market hours
Other cost shown	None in summary	\$2 trade cost

Circle three similarities and three differences. List two facts that still must be verified in the complete documents.

Part 2 - Calculate Shares and One-Year Results

Fund	Amount invested	Starting price	Shares	Ending price	Distribution per share	Ending value plus distributions	Return
M	\$400	\$25		\$27	\$0.50		
E	\$400	\$50		\$53	\$0.75		

Ignore expenses and the ETF trade cost in this first calculation. Use shares = amount / starting price. Then calculate ending value plus distributions and percentage return.

Part 3 - Add Costs and Trading Facts

Question	Fund M	Fund E
Annual expense ratio		
Dollar estimate on a \$400 average balance		
Separate cost shown		
When does the trade execute?		
Could purchase price differ from NAV?		
What document lists full fees?		

For this classroom estimate only, multiply \$400 by each expense ratio. Do not subtract this estimate from Part 2 because actual fund expenses are reflected through fund assets over time.

Part 4 - Evaluate Four Investor Needs

Need	Feature that matters	Fund evidence	Question before investing
Automatic monthly purchase			
Trading during the day			
Lowest total cost			
Broad diversification			

Explain why the lowest expense ratio may not automatically mean the lowest total cost or best fit.

Part 5 - Fund Comparison Recommendation

Decision check	My evidence
Fund objective	
Holdings and diversification	
Trading method	
Expense ratio	
Other fees or trading costs	
One-year calculation	
Time horizon and goal	
Prospectus fact to verify	

Write a 150-200 word recommendation for a fictional investor. Compare both funds, include share and return math, explain trading and cost differences, and identify at least two facts to verify.