FinStart

How do you make money when you invest in ETFs (exchange-traded funds)?

I. From fund distributions

- Stocks / bonds in your ETF pay dividends / interest.
  - This only matters when you have a taxable account (and only for dividends from Canadian companies – because they are taxed lower than other dividends and than all interest).
- ETFs package this money into periodic distributions.
- Management fees (like the MER) are subtracted - what's left is deposited into your account periodically.

II. From capital gains

When you sell some shares of your ETF for a higher price than you bought them for, you earn the difference - as capital gain. When you sell for less than you bought for, you suffer capital loss. If your capital gains exceed your loses, you profit.

Something you should know

You may see paper capital gains / losses in your account when your ETF sells securities / other funds it owns, even if you didn't personally sell anything.

- 'Paper' means that you don't actually get money - it's an accounting item. But it's still subject to income tax that year.
- This won't matter if your account is registered - TFSA / RRSP / RESP.
- If you have a taxable account, there's nothing you can about it.
  - You may check if the ETF you are researching had in the past large paper gains.
  - Large, well established ETFs tend to invest in the same way year after year – so no large paper gains in the past likely means no large paper gains in the future.