

PORTFOLIO DIVERSIFICATION WITH ETFs

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Abstract

The research paper intends to highlight the characteristics and demonstrate the benefits of an increasingly popular investment product, the Exchange-Traded Fund (ETF). Although it has been around for at least two decades, it began to attract most of the inflows after the Global Financial Crisis of 2007-2008, the industry's assets under management growing by more than 300% since then.

The case study outlines the benefits of investing in ETFs by comparing its return and risks to a stock-only portfolio. Using weekly closing prices for fifteen ETFs and stocks, the market and minimum-variance portfolio and also the Value at Risk model have been computed for a two-year period (2015-2017).

The final chapter provides an outlook of the Exchange-Traded Fund industry, addressing the main opportunities and challenges that will arise in the coming years.

Keywords: ETF, portfolio diversification, portfolio management, investment funds, capital market, personal finance.

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