



"Passive" vs. "Active"

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Analysing ETF Investment Advantages!

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Kester: Yvonne! I know that in addition to your expertise in investments, you're also a very discerning foodie. If we were to use food to describe the difference between "passive" and "active" ETFs, what kind of food do you think would be the most suitable analogies?

Yvonne: Generally speaking, ETFs can be divided into two categories: "passive" and "active," each with different investment strategies and risks. A passive ETF is like choosing a set menu at a Chinese restaurant. You, as the customer, know exactly what's included in the set. For example, it might include suckling pig platter, crispy fried chicken, red bean soup, and so on. Passive ETFs track a benchmark index and invest in the index's constituent stocks to build their portfolio, aiming to provide returns that closely tracking the index's performance. The index may add new constituent stocks and also remove existing ones. The passive ETF's fund manager will adjust the portfolio accordingly based on these changes.

Kester: I see! and the S&P 500 Index are passive ETFs, right?

Yvonne: Yes, that's right. In fact, ETFs are very popular investment tools and are listed on Stock Exchange in Hong Kong and around the world. Passive ETFs listed in Hong Kong also track overseas indexes, such as the S&P 500 from the United States and the TOPIX 100 from Japan.

Kester: For example, investors in Asia might want to invest in the U.S. stock market during Asian trading hours. Through S&P 500 index-tracking ETFs listed in Hong Kong, you can capture potential opportunities in the U.S. stock market.



Yvonne: Besides broad stock markets, passive ETFs also track indexes across various asset classes, including bonds like U.S. Treasury bonds, commodities like gold, as well as different themes such as technology and ESG, and even leveraged and inverse products. On the other hand, the number of active ETFs in the market is steadily increasing, and they are gaining more and more attention from global investors.

Yvonne: If we use a restaurant analogy, active ETFs are like customers going to a private dining experience. The chef tailors the menu based on the freshest ingredients available that day and the customer's preferences. The chef creates different dishes.

Kester: Active ETFs invest in stocks, bonds, or other assets beyond just a benchmark index. Seeking to achieve investment goals while aiming to outperform the benchmark index. It's like the concept of private dining, where the benchmark is based on the original dishes. It remains true to its core without deviating into cuisines from other countries.

Yvonne: Active ETFs might be more appealing to investors who are looking to outperform benchmark indexes. For investors seeking to easily capture the returns of a benchmark index and avoid the risk of selecting individual securities, passive ETFs can help achieve their investment goals.

Kester: The different types of ETFs available in the market provide investors with a variety of investment options. Regardless of which approach you choose, the most important thing is to make a decision based on your own risk tolerance and investment goals.

Yvonne: That's all for today. I hope everyone has a deeper understanding of the two types of ETFs: "Passive" and "Active."

Kester: If you enjoyed our content and want to learn more about ETFs and investment, please visit the Hang Seng Investment official website or follow Hang Seng Investment's LinkedIn page. See you!



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