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Ask the Biz Brain

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I am a big fan of low-cost mutual funds, particularly indexed funds. I wish to understand the pros and cons of indexed mutual funds vs. exchange-traded funds.

--Disciplined Investor An index mutual fund is money pooled from a group of shareholders and invested in a variety of securities, including stocks, bonds and money market securities. In comparison, an exchange-traded fund trades like a single stock. It is made up of baskets of securities reflecting the composition of a stock market index.

Both funds are typically less expensive than actively managed mutual funds, making them a good place to start to keep your overall investment costs low, according to Marnie Aznar, a certified financial adviser with Aznar Financial Advisors.

Aznar and Michael Napolitano, a certified public accountant with Meisel, Tuteur & Lewis, have provided a list of some of the pros and cons of both types of funds. Space is limited here, so we've also included a short list of additional resources.

Let's start with the pros and cons:

- Exchange-traded funds are subject to normal brokerage commissions. The index funds of a mutual fund company may charge slightly higher fees, but they can usually be purchased more easily and more cheaply for the everyday investor.

- ETFs can be traded through any brokerage account. Mutual funds are not always available through brokerage firms.

- Mutual funds often impose a minimum investment amount. In comparison, ETFs have no minimum amounts. Choose the brokerage firm where you make your purchases wisely, since the commissions involved can make a significant dent in the funds you have available for investment.

Aznar recommends the following Web sites for more information: www.indexfunds.com, www.fool.com and www.smartmoney.com.

-- Susan Todd