What to check when screening an ETF for risk

Exchange-traded funds offer a convenient way to gain diversified exposure to a market, sector or strategy. But not all ETFs carry the same level of risk. Two funds tracking the same index can behave differently once costs, liquidity and construction are taken into account. A disciplined review before buying helps avoid surprises that show up only after the money is in.

An ETF screener can surface candidates quickly, but the real work begins when you look past the headline numbers. The points below cover the areas that matter most for risk assessment. Each one gives you a reason to dig deeper or to move on.



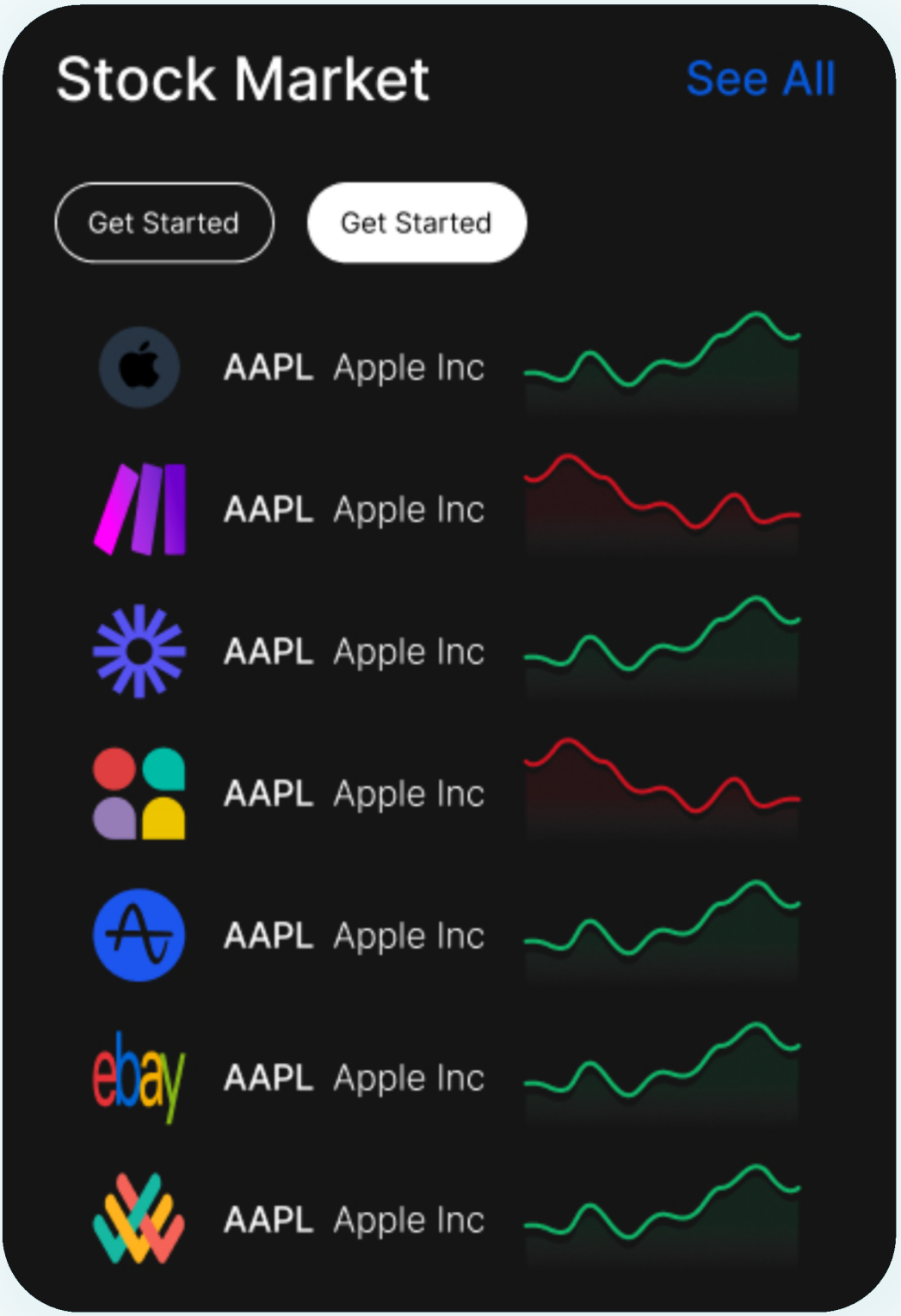
Check the expense ratio and what it buys

The expense ratio is the annual fee deducted from the fund's assets. It matters because it directly reduces your net return. A low ratio is attractive, but the cheapest fund is not always the best. Some low-cost ETFs achieve their fees by using a sampling strategy that may not fully replicate the index, which can introduce tracking error. Others may have higher costs because they provide exposure to a niche market or use a more complex methodology.

Compare the ratio with the fund's stated objective and ask whether the fee is fair for what you get. A difference of a few basis points can compound significantly over time, so this is one number worth checking on every screen.

Review the tracking error

Tracking error measures how closely the fund's returns match its benchmark index. A small tracking error suggests the manager is doing a good job of replicating the index. A large tracking error may indicate sampling, currency hedging costs, or other structural issues. For a passive fund, persistent tracking error that is higher than peers is a red flag. For an active ETF, tracking error is expected to be larger, but you still want to understand the source. An ETF screener will often display tracking difference and tracking error side by side. Look at both over one, three and five years to spot trends. If the fund consistently lags, the fee advantage may be wiped out by poor replication.



Examine fund holdings and sector allocation

The headline name of an ETF can be misleading. A fund labelled "technology" might hold mostly software giants, but it could also include hardware, semiconductors or even financial technology firms. The sector allocation tells you the real exposure. Check the top ten holdings and their weightings. A fund that is heavily concentrated in a few stocks carries single-stock risk that may not be obvious from the sector name alone. Similarly, look at the geographic split if the fund invests globally. Currency risk and political risk vary by region, and a fund that appears diversified on the surface may be heavily weighted toward one country. An ETF screener that shows the complete holdings list and sector breakdown is essential here. Without it, you are guessing at the actual risk profile.

Understand asset allocation and portfolio turnover

Asset allocation is the mix of asset classes in the fund. For a single-asset ETF, this is straightforward. For a multi-asset or target-date fund, the allocation shifts over time. Check the current allocation and how it changes. A fund that rebalances frequently may have higher transaction costs, which eat into returns. Portfolio turnover measures how often the fund buys and sells securities. High turnover can mean higher trading costs and more realised capital gains, which are taxable for investors in taxable accounts. It can also signal a manager who churns the portfolio, which may increase risk without adding value. Look for turnover ratios under 50% for most passive equity ETFs. Higher numbers are not necessarily bad, but they deserve an explanation.

An ETF portfolio quality analysis helps you assess whether the fund's holdings and turnover align with your risk tolerance. This kind of review goes beyond the fee and looks at the actual securities inside the fund. It can reveal hidden risks such as excessive exposure to a single sector or a high concentration in low-quality bonds. For example, a high-yield bond ETF may offer a tempting yield, but the underlying bonds may have a high default risk that the fund's diversification does not fully offset. Running this type of analysis on any fund you are considering adds a layer of protection against unpleasant surprises.

Consider the bid-ask spread and trading volume

Liquidity matters for ETFs, especially if you plan to trade frequently or in large size. The bid-ask spread is the difference between the price a buyer is willing to pay and the price a seller is asking. A wide spread increases your transaction cost and can eat into returns. Trading volume gives an indication of how easy it is to buy or sell the fund without moving the price. Low-volume ETFs may have wider spreads and be harder to exit quickly. Check the average daily volume and the spread as a percentage of the net asset value. A fund with a spread of less than 0.1% is generally liquid. Anything above 0.5% may be costly to trade. An ETF screener that includes these metrics is useful for comparing similar funds before you commit.



Look at the net asset value and premium or discount

ETFs trade on exchanges at market prices that can differ from the net asset value of the underlying holdings. When the market price is above the NAV, the fund trades at a premium. When it is below, it trades at a discount. Persistent premiums or discounts can indicate structural issues such as illiquid holdings or a fund that is hard to arbitrage. For most mainstream ETFs, the price stays close to NAV. But for niche or leveraged funds, the gap can be significant. Check the fund's history of premiums and discounts, especially during periods of market stress. A fund that often trades at a large premium may be overpriced, while one at a persistent discount may signal underlying problems. An ETF screener that shows the current premium or discount and its range over time helps you avoid buying at an inflated price.

Another aspect of ETF portfolio quality analysis is reviewing how the fund handles corporate actions, dividends and rebalancing events. Some funds pass through dividends efficiently; others may have a lag that affects your cash flow. Understanding these mechanics helps you plan your entry and exit points. It also gives you a clearer picture of the fund's true cost, beyond the expense ratio.

Check the fund's age and assets under management

Newer ETFs with small asset bases carry additional risks. A fund with less than, say, $50 million in assets may be at risk of closure if it fails to attract enough investors. Closure means you are forced to sell at an inopportune time, potentially realising a loss. Older funds with larger asset bases are more stable and tend to have tighter spreads. Check the fund's inception date and its total assets. If the fund is less than three years old and has a small AUM, weigh the risk of closure against the potential benefits. An ETF screener that filters by fund age and AUM can help you avoid these smaller, less liquid funds.



Finally, think about how the ETF fits into your broader portfolio. A fund that looks good on its own may add unwanted correlation or concentration when combined with your other holdings. The checklist above gives you a systematic way to evaluate each candidate. By running through these points before you buy, you reduce the chance of a costly mistake and build a portfolio that aligns with your risk tolerance and investment goals.