

KNOW BETTER

Guide to buying and selling ETFs



ETFs are funds that trade like a stock. They are a diversified, low-cost and tax-efficient way to invest. However, just like any investment, it is important to be familiar with when and how orders can be placed to seek the best execution.

Best practices when trading ETFs

- **TIME:** Markets can be more volatile near open and close. Consider trading after the first, and before the last, 20 minutes of the trading day. There is also less liquidity during opening and closing as market makers are less active during those times.

When trading bond ETFs, note that the net asset value (NAV) of the fund is calculated once per day, normally at 4:00 p.m. ET, and is generally based on bid side (for some indices, mid) index prices snapped at the 3:00 p.m. ET bond market close. However, the ETF price effectively represents the real time price of the bond portfolio as determined by exchange trading. Accordingly, seeing discounts to NAV in fast moving markets during this last hour before the exchange closes on which the ETF trades is entirely possible in volatile markets because of the reasons above; the ETF is showing a real-time, immediate execution at the portfolio level on exchange.

- **ORDER TYPE:** Just like trading individual stocks, make sure your order type is consistent with your goals. To help mitigate the impact of price swings, consider using limit or stop-limit orders (especially in volatile markets). If, however, it is important to make sure the trade executes, market or stop orders may be more appropriate (note the potential price risk, though!).

Key takeaways

TIME OF DAY MATTERS

Consider avoiding trades near the market open or close, if possible.

SEEK PRICE PROTECTION

During times of volatility, consider limit or stop-limit orders, which give you more control over price than market or stop orders.

Detailed comparison of order types

Goal	Order type	Key feature	Potential drawbacks
Price protection is important			
Buy / sell only at price you determine	Limit order: order executes only at the price specified, or better	Control over worst price at which trade executes (e.g., sell as long as price is no lower than \$10)	Order may not execute at all (if the ETF does not reach the specified price) or may be filled only partially
Help protect gains / reduce losses with price limits	Stop-limit order: wait until price breaks through a specified level, then execute as limit order	Buy or sell a security following a specified price move, with full control over worst price at which the trade can execute (e.g., sell if price dips by more than 5%, but not beyond 10%)	
Execution is more important than price protection			
Buy / sell immediately	Market order: order executes as soon as possible at the best price available at the time	Immediate execution of the trade in normal market conditions	In times of market stress, realized price may be different from last quoted price. Also, execution may be delayed (e.g., if trading is halted)
Help protect gains / reduce losses	Stop order*: wait until price breaks through a specified level, then execute as market order	Buy or sell a security following a specified minimum price move (e.g., sell if price dips by more than 5%)	

* May also be referred to as a stop-loss or stop-market order

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