Guide to buying and selling ETFs

Key takeaways:

1

Time of day matters: consider avoiding trades near the market open or close, if possible.

2

Seek price protection, especially during times of volatility: consider limit or stop-limit orders, which give you more control over price than market or stop orders.

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 good to be familiar with when and how orders can be placed to seek 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.

Order type:

- Just like trading individual stocks, **make sure your order type is consistent with your goals:**
- To obtain protection against 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!)

Want to know more?

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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	Full 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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