ETFs

Best Practices for Advisors when Trading ETFs

When buying and selling exchange-traded funds (ETFs), advisors should be aware of some potential challenges and important issues.

Here are some essential points to consider.

ETF liquidity – Look to underlying securities

ETFs with large trading volume may seem to provide greater liquidity. However, the liquidity of an ETF is in fact related to the "wrapper" of underlying securities it tracks, not the number of units or average daily volume (ADV). For example, 1,000,000 units of a particular ETF would maintain the same liquidity as just one unit of the same ETF that tracks the same underlying securities.

Stock A		Stock B		Stock C
$200 Million Traded Daily	+	$250 Million Traded Daily	+	$250 Million Traded Daily

ETF 1	ETF 2
ADV: 1 Unit	**ADV:** 1 Million Units
Underlying Liquidity: $700 Million	**Underlying Liquidity:** $700 Million

RESULT

1,000,000 units of a particular ETF would maintain the same liquidity as just 1 unit of the same ETF that tracks the same underlying securities.

For illustration purposes only

ETF order types – Stick to limit orders

Since exchange-traded funds (ETFs) trade on the market like individual securities, there are various order types to consider. However, investors should focus on trading ETFs mainly through limit orders, since it allows investors to set a specific target price for buying and selling. This type of order provides price control and protection compared to a market order, which executes a trade immediately at the best available current price. However, depending on liquidity or other market forces, the trade price could be much higher or lower than what you had expected.

For added flexibility, you can also consider a marketable limit order, which is a form of limit order that provides a higher probability of execution. Through a marketable limit buy order, you set a price equal to or more than the offer price, but not higher than what you want to pay. If the market doesn't change, a marketable limit order is more likely to get filled immediately, while eliminating the risk of paying more than you wanted.

Timing trades – Don't trade near the open or close

An ETFs price is determined by the prices of its underlying securities and it can take some time for some of those securities to start trading, even in North American markets. As a result, you should consider executing ETF trades at least 20 minutes after markets open and at least 20 minutes before close. Also, if you try to trade near the end of the day's session, the chances increase that only part of your order will be filled.

Large volume trading – Call the block trading desk

Instead of attempting to trade large volumes of shares of an ETF on your own, consider contacting the ETF issuer or specially trained traders who specifically deal with large orders. A block trading desk can help take care of large trades (e.g., 10,000 shares or more) and can ascertain other strategies and liquidity options that may not be directly available to you.

Try to trade when the underlying market is open

For ETFs that invests in securities that trade in markets outside of North America, it's best to trade that ETF when the markets for the majority of it's constituents are open as this is when the market makers would be most effective in keeping the ETF price in line with it's net asset value. For Canadian ETFs that in invest in U.S. securities, this also applies to U.S. holidays when the Canadian market is open while the U.S. market is not.

To learn more about the benefits of investing in Manulife ETFs, visit **Repsource.ca/ETFs** or contact your Manulife Investments Sales Team.

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