How to Buy & Sell ETFs: A Short Guide

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Introduction

An Exchange traded fund (ETFs) is an investment fund that trades on a stock exchange. An ETF can be made up of different securities and asset classes such as stocks, commodities or bonds. For example, an ETF might track an underlying index that tracks a market's performance such as the FTSE 100 or a specialist theme such as cloud computing.

We will take a brief look at how to trade ETFs.

Overview

- ETFs trade just like regular shares that are listed on a stock exchange. You can buy and sell them through a stockbroker, online share trading platform or via your financial advisor.
- You can find the product you wish to trade by searching for the product name or ticker. All ETFs will have a product name and a ticker symbol along with a unique identifier and ISIN number. For example, the Emerging Markets Internet and E-commerce ETF has the ticker symbol 'EMQQ'. You can find the ISIN and identifiers on the ETF's fact sheet on the issuer's website.
- There are two main ways in which you can place orders; "market orders" and "limit orders". The difference between the two is important because it can have an impact on the price you might receive. We discuss each of these in a little more detail below.
- If your order is executed, typically it will settle two days after the trade date. This is the process of the ETF being transferred to the buyer's account and the cash being transferred to the seller or vice versa.

A quick look at some terminology that ETF issuers might use:

What is Net Asset Value (NAV)?

When an ETF issuer talks about "NAV" they are referring to the Net Asset Value of the fund. The NAV represents the per share or unit price of the fund. This is usually calculated each business day by the administrator of the ETF. This is very similar to what you see for mutual funds.

What is the Bid and Offer?

The bid price is the price that someone is willing to pay for an ETF and the offer is the price at which they are willing to sell. Therefore, if you want to buy the ETF you will pay the offer price, which is the price that someone is willing to sell to you – and vice versa.

ETFs don't rely on two-way order flow to create a bid/offer spread. There are always market makers who make two-way prices electronically to ensure investors can always buys and sell when the market is open.

Limit Orders

A limit order ensures that you get a price for the ETF which is within the range of your maximum or minimum price that you are willing to pay or receive (your limit). It offers you some protection from sudden market moves so this is the way in which we recommend you place the majority of your ETF orders.

The broker/platform that you use may allow you to specify how long you want the order to remain live. For example, the market price may never reach your limit as the price moves away from your limit order price.

In some instances, you may not want your order to remain live while you are not monitoring the market. Limit orders can be set for the day (GTD) or good till cancelled (GTC) which will remain in the system until you cancel them.

Market Order

A market order is where the broker/platform sends your order to the market to be executed as quickly as possible. Your order is likely to be executed immediately as there should always be a market maker in our ETFs showing prices at which they are willing to buy and sell.

However, market orders are not always recommended as the price you receive may vary significantly from the price you may have seen on-screen just before you hit the execute "button".

There are a few reasons for this, but some examples are:

- The market is very volatile and the price moves in the time between your order being placed and reaching the market.
- The market maker has just sold some shares and your order hits the market just as they are refreshing their prices such that you get executed at the next best price in the market which is significantly higher or lower than the market and your expectations.

Hints and Tips

- To try and achieve a lower spread (difference between the bid/offer), try to trade the ETF when the market the majority of assets in the ETF is open. For example, if you buy an ETF which holds US equities it is usually better to wait until the US market is open.
- Try to avoid periods of volatility in the markets where prices can move quickly and unexpectantly. This can be around times such as when economic data is announced or a major geo-political event.
- Try to avoid trading when the market first opens. There is often more volatility at this time and so it would be advisable to wait for 15 minutes where possible.
- Of course, like share trading, the value of ETFs can go down as well as up and your capital is at risk. You may not get back the amount you fully invested.

The Risks and Rewards of ETF Trading

All investors hope that their investments quickly become profitable but there are some key risks you should consider:

- ETF prices go down as well as up
- Your capital is at risk and you may not get back the amount you originally invested
- Exchange rate fluctuations can have a negative or positive effect on returns

Online Brokers, Stock Brokers and Platforms

Online investment platforms and stock brokers have access to their home stock exchange. For example, UK brokers will have access to the London Stock Exchange. Many larger brokers will also have access to overseas exchanges such as Borsa Italiana and Deutsche Boerse.

If you find that one of HANetf's ETFs are not available when you enter the unique identifier, ticker or ISIN, please contact your broker to ask them to set it up. If you have any problems after that please contact HANetf and we can see if we can help.

Education and Pre-Trade Advice

At HANetf, we offer institutions:

- Advice on execution, for example, to try and reduce market impact. We can perform a pre- trade analysis to help you understand how much can be traded in one day and what price you might be able to achieve for the size you wish to trade.
- Execution strategies designed for your specific needs. For example, related to Risk vs NAV trading, market on close, TWAP/VWAP, relative to a specific benchmarks.
- Thought leadership in ETF trading and investing.

Our Partners

Please find a list of brokers and contacts who you can use to trade HANetf products:

Authorised Participants (APs)	Direct to Consumer Platforms:	Intermediary Platforms:
Commerzbank	AJ Bell Youinvest	AJ Bell
HSBC	Charles Stanley Direct	Aegon
Vitru	Interactive Investor (incl; TD, Alliance Trust)	Aviva
RBC	Selftrade	James Hay Partnership
Goldenberg	IG Index	Nucleus Financial Group
Jane Street	Hargreaves Lansdown	Parmenion Capital Partners
Old Mission Capital	Barclays Smart Investor	Pershing
Barclays	Bestinvest	Praemium
Morgan Stanley	Cavendish Online	Seven Investment Management (7IM)
J.P. Morgan	Close Brothers	Standard Life Wrap
Soc Gen	Halifax Sharedealing	Novia
Citibank	iWeb	Raymond James Investor Services
Flow Traders	Share Centre	Ascentric
	Saxo Trader	Transact
	Degiro	Onvista
	Ebase	DAB & Cortal Consors – BNP
	Flatex	MaxBlue - DB
	ING DiBa	Comdirect
	MaxBlue	Pershing (custodian & trading)
	Raisin	Conexim
	S Broker	
	Targo Bank	

For more information about the liquidity of ETFs, how the primary market interacts with the secondary and the ETF eco-system in general, please refer to our whitepaper "Understanding the True Liquidity of ETFs".

By Jason Griffin, Director of Capital Markets at HANetf

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