



Understanding ETF Trading

CASE STUDY | October 2024

There are a lot of things to consider when trading ETFs — time of day, market volatility, and ETF liquidity, to name a few. Evaluating these factors can help execute a trade in the best possible manner. But where should you begin when you decide to trade a particular ETF?



There are a few items to bear in mind when trading ETFs. You should consider many factors when looking to place ETF trades, including time of day, market volatility and ETF liquidity. While on-screen (secondary market) liquidity is useful to determine the average daily volume of an ETF, it is only part of overall ETF liquidity. First the difference between the primary and secondary market.

ETF Trading: Understanding the Primary vs. Secondary Market

	LIQUIDITY	PARTICIPANTS	UNDERLYING IMPACT
Primary Market	Create new shares or offload old shares. Minimum size called "unit size"	Authorized Participants with the right to create or redeem	Requires AP to source underlying securities
Secondary Market	Trading shares already issued on exchange with no size minimum	Individual investors or market makers	No requirement to source underlying securities

On-screen liquidity shows the current bid-ask spread and number of shares available at any given time. It will also show recent trading activity on the secondary market, but it may not indicate the full potential liquidity for an ETF.

If you are looking to place a large trade and don't have an internal trading desk to help with the order, it may be prudent to work directly with the block desk at your firm's custodian. The block desk will work with ETF market makers to access additional liquidity. Finally, if necessary, Authorized Participants can tap into the liquidity of the ETF's underlying holdings through the creation and redemption process to ensure investor demand is met and the trades are executed in an efficient manner.

PRIMARY MARKET

- Firms that have a relationship with the sponsor are called Authorized Participants (AP) and are the only firms that may create and redeem shares in the primary market.

SECONDARY MARKET

- At launch, an ETF has a designated Lead Market Maker (LMM). LMMs are required by the exchange to meet minimum performance standards (i.e. best bid and best offer).
- There are three primary listing exchanges in the U.S.: NYSE Arca, NASDAQ and CBOE.

Trade Decision	Trade Preparation	Trade Tips	Trade Execution
<p>ETF TRADE DECISION</p> <ul style="list-style-type: none"> Client decides to buy/sell MSIM ETF MSIM representative (potentially) notified of size and direction of trade 	<p>QUESTIONS</p> <ul style="list-style-type: none"> Does your firm have an internal trading desk or do you route the trade through your custodian? Which custodian does your firm use for ETF execution? What Order Management System (OMS) do you use to transmit trades to your custodian? Do you have email/phone numbers for the traders at your custodian? 	<p>POTENTIAL TIPS</p> <ul style="list-style-type: none"> If traded internally, use Limit Order If trading via custodian — notify client of the existence of block desks — many RIAs are unaware If trading via custodian and trade is >2,000 shares, mark the trade as “Not Held” in OMS If unable to mark trade, call or contact custodian trading desk 	<p>EXECUTION</p> <ul style="list-style-type: none"> Market or orders not designated as “Not Held” don’t benefit from having an “order owner” “Not Held” allows professional traders to minimize market impact Custodians quantify execution quality and hold market makers accountable Most trades will be executed via competitive Request for Quote (RFQ)

Final Tips for Efficient ETF Trades

- Understand the different order types, as they can impact trade execution and costs.
- Use caution when trading close to the market open and close as price discovery may impact bid/ask spreads.
- Volatile markets may lead to steep premiums or discounts to an ETF’s NAV, so extra care should be taken when trading during these periods.

ORDER TYPE	MARKET	SUITABILITY FOR BLOCK TRADES
Market	Buy/sell is executed immediately at the best available price. However, the investor will not know the full cost of the transaction until it is executed.	Not recommended since there is no price control.
Limit	This allows investors to set the exact price they are willing to pay or receive for an ETF share. However, the order may not be filled if the market moves.	Recommended as the buy will go off at the set price or lower and a sell will execute at the set price or higher.
Not Held	A block trading desk will support these transactions and has discretion over timing and price in order to facilitate efficient execution.	Recommended for larger trades.
Stop	Trades are placed once a predetermined price is hit.	Not recommended due to inadvertent trades caused by market volatility.

Every situation is different, and there is help available when you are ready to execute a trade. Our capital markets team has been working with liquidity partners and investors within the ETF ecosystem for years. They are always available to assist.

If you have questions around trade execution, contact the Capital Markets Team through your Eaton Vance representative.

Risk Considerations

Investing involves risk. The market prices of Shares of the ETFs are expected to fluctuate, in some cases materially, in response to changes in the Portfolio's NAV, the intra-day value of holdings, and supply and demand for Shares. The Adviser cannot predict whether Shares will trade above, below or at their NAV. Buying or selling Shares in the secondary market may require paying brokerage commissions or other charges imposed by brokers.

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