

Traditional exchange traded funds (ETFs) combine the intraday trading of stocks with the diversification of mutual funds to create an investment solution that can help meet a variety of investing needs. However, even the most seasoned investors should consider several points when buying and selling ETFs.

Order types and considerations

- **A market order** – an order to buy or sell immediately at the best available price – may lead to less-than-optimal trade execution
- **A limit order or a marketable limit order** can help define the exact price an investor is willing to pay or receive for an ETF trade and is generally considered by most in the industry to be the preferred order type for trading ETFs
 - Remember that although a limit order allows you to specify a price, there is no guarantee of an execution, even if the market moves and reaches your limit price
 - Investors contemplating large purchases or sales exceeding 10,000 shares may consider working with a trading specialist who may be able to assist in ensuring best available execution

Use caution if trading at market open or close

At market open, it is common to observe wider bid/ask spreads¹ because:

- Typically most stocks trade at wider spreads on the open, making it difficult for Authorized Participants (APs)² to price ETFs during the first few minutes of the trading day
- Not all of the ETF holdings may be trading at the market open

Toward market close, APs may be reluctant to take on large positions as they begin to balance their books, which can also widen bid/ask spreads.

Watch for events that could lead to market volatility

- Be aware of earning reports, general economic releases and Federal Reserve Board announcements, as such events may cause a widening of ETF bid/ask spreads
- Market volatility can also lead to premiums or discounts to an ETF's net asset value (NAV), potentially resulting in higher costs for investors

Along with an ETF's ADV (average daily volume), look at its spreads and liquidity of the underlying securities to gauge liquidity³

- ETFs with strong trading volume, as measured by ADV, typically offer higher liquidity³
- However, also look at the ETF's bid/ask spread, which can indicate an AP's costs in creating/redeeming shares as well as the underlying liquidity of the ETF's holdings

¹ Ask is the price a seller is willing to accept for a security; bid is the price a buyer is willing to pay for a security

² APs are typically large institutional organizations, such as market makers or clearing firms, that are responsible for creating an ETF's underlying basket of stocks, and/or redeeming ETF shares in the form of a redemption unit.

³ Liquidity is the relative ease with which a security can be bought or sold without impacting its price.

Be aware of ETF constituents' trading hours and liquidity

Differences in trading hours for an ETF's underlying securities may lead to diminished liquidity in the ETF.

- When trading ETFs that own international or emerging market stocks, you may want to consider timing your order for when the markets for those stocks are open. Note that this is not possible for Asian or Australian securities, as their trading hours have no overlap with U.S. trading hours.
- Likewise, when trading ETFs that own commodities, keep in mind that trading hours can differ greatly from those of U.S. stock exchanges

Consider the Intraday Indicative Value (IIV)⁴

- Every 15 seconds an ETF's IIV provides a snapshot of the portfolio's value; it may be a good starting point when evaluating the placement of an order⁵
- Be aware that these IIVs may be "static" for ETFs that track some international,⁶ commodity or bond indexes, as the markets where the underlying securities trade may be closed, even though the ETF is actively trading
- Note that IIVs are created and disseminated by third-party vendors

Remember, Schwab is here to help

- Schwab offers a broad range of ETFs to meet investor needs.
- For more information call **1-877-824-5615**, or visit www.csimfunds.com

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⁴ IIV is an estimated value of its holdings based on the most recent prices of its underlying securities and other assets.

⁵ See also "[ETF trading and liquidity: A deeper dive](#)" for more details.

⁶ See also "[International Equity ETFs: A close look at pricing](#)" for more details.

Investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the ETF. Shares of ETFs are bought and sold at market price, which may be higher or lower than the net asset value (NAV).

The information provided here is for general informational purposes only and should not be considered an individualized recommendation or personalized investment or trading advice. The investment and trading strategies mentioned here may not be suitable for everyone. Each investor needs to review an investment strategy for his or her own particular situation before making any investment decision.

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