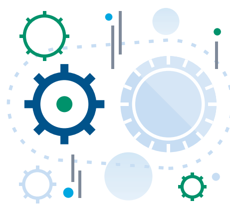
American Century Investments® | ETFs

ETFs: Four Market Order Types and Best Trading Practices

Following a few simple steps can help investors gain greater confidence in placing exchange traded funds (ETFs) trades. While no hard-and-fast rules apply under all circumstances, different situations and investor objectives call for differing tactics. Here we explain the different order types and provide some tips for trading ETFs.



Contact an ETF Specialist to learn more at **833-ACI-ETFs (833-224-3837).**

Market Order Types Explained

Investors need to be familiar with the basic order types available in the market today. An important trading tip is to access the ETF block desk to ensure effective execution. Below are some basic order types used when trading ETFs.

Market Orders Guarantee Execution

This is your basic request to buy or sell immediately at the best available price. As soon as you place an order with your broker, he or she executes the trade.

Risks in using market orders:

- There is no pricing control: The quoted price may or may not be the price the investor receives.
- It guarantees immediate trade execution, not price.

Tip: Stocks with low average daily trading volumes may execute lower or higher than the current market price, so consider using a different order type for these trades.

Limit Orders Execute the Trade at a Predetermined Price

You can buy or sell at a predetermined price (limit price) or within a range that you set for your broker to execute on the trade.

- You have full pricing control of the purchase and sale.
- You determine how long you want the limit order in effect, which can be a number of days (i.e., one day or up to 60 calendar days) or until you cancel it yourself.
- There is no guarantee of trade execution if shares are not available to fill your order at the price specified. An adjustment to the price of the limit order may be needed during volatile markets.

Stop Orders Execute the Trade When a Specific Price is Met

To help provide some price control and manage risk, you can use this multistep approach to place a trade. You set the initial price to buy or sell the ETF, which is the stop price. Once the order hits that set price, it becomes a new market order, which in turn fills the trade at the next available market price.

- You may request that the order stay in effect for one business day or up to 60 calendar days.
- You have pricing control through the initiation of the stop order; however, once it hits the stop price, the order is immediately filled at the next available market price, which may be higher or lower than your stop order price.

Stop Limit Orders Guarantee a Price Limit, but the Trade May Not Fully Execute

This is essentially both a limit order and a stop order, which may help you fine-tune what price you get. The stop order triggers a limit order once the stock trades at or past the target price.

- There is full pricing control by setting a minimum or maximum price to execute the trade.
- You may request that the order stay in effect for one business day or up to 60 calendar days.

Keep in Mind ETF Trading Best Practices

When trading an ETF, you should keep in mind best practices and consider factors to help ensure the best possible execution.

Avoid Trading at Market Open

In the first few minutes of trading, not all securities included in the ETF basket may have traded, leading to pricing inefficiencies and causing the ETF spreads to widen. It's generally better to wait at least 15 minutes after a market opens to place an ETF trade, allowing time for the underlying securities to open and the buy and sell prices of an ETF to return to normal ranges.

Be Cautious if Trading at the End of the Day

At the end of the trading day, ETF spreads may widen as the trading firms prepare for the market close. This can lead to pricing inefficiencies, which in turn can cause spreads to widen and trading costs to increase.

Tips:

- Place trades at least 15 minutes before the market closes, as size and depth may be better earlier in the trading session.
- Place limit orders to help control the buy and sell price. Keep in mind, however, that all the shares may not be executed.

Be Aware of Market Dynamics

Keep in mind that volatile markets can also spell uncertainty for ETF pricing. Market swings can cause the prices of the underlying securities to move sharply, leading to wider bid/ask spreads or larger premiums and discounts for the ETF.

Tip: When considering any ETF order, always be aware of what's happening in the broader markets. During periods of market volatility, a limit order may be appropriate to help manage major price swings.

Trading Large Blocks of ETFs

You have a lot at stake when placing larger buy and sell orders in the market, which is why it is important to use all the tools available to you to help with trade execution. A block desk can help with your larger buy or sell orders, as they have access to additional sources of liquidity by using trading strategies not accessible to the average investor.

Leverage the Issuers' ETF Capital Markets Desk

You can also access ETF capital markets experts at your ETF issuers' firm as well as brokers/dealers at your ETF trading platform provider. These experts are available to guide you through your ETF trading strategies, help bring about a positive trading experience and achieve the best possible execution to help meet trading objectives.

Summing It Up

Many innovative ETFs are available to investors in the marketplace today, allowing you to add to or create portfolios that fit a variety of needs. Understanding some basic market order types and best practices may give you greater confidence in placing trades in ETFs.

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