

SWITCHING IT UP: MUTUAL FUNDS TO ETFS

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We have long written about the [best practices for switch trades when it comes to buying and selling two ETFs](#), but what about when switching from mutual funds to ETFs and vice versa? There are two important operational questions to think about before implementing this investment vehicle switch: Does my settlement match? and How do I maintain market exposure in my portfolio during this transition? Thinking about operations is not the glamorous side of investing, but it is a key component to achieving a smooth transition and your investment goals.

Settlement:

Mutual funds in the U.S. settle on a [T+1 basis](#) and ETFs on a [T+2 basis](#). What this means is that your cash will be credited to your account (you sell) or your cash will be debited from your account (you buy) on mutual fund trades on the next trading date (T+1). For ETFs, the same holds true on the second trading day after your trading date (T+2). When switching from a mutual fund to an ETF, investors need not worry, as the cash will be available one day before the ETF trade is set to settle. However, when the switch is the other way around, investors selling an ETF to buy a mutual fund want to ask their broker for a shortened settle date of T+1 (if possible) to ensure the settle dates of the two products match.

Market Exposure:

One question many investors ask before executing these types of switch trades is how to match market exposure through the transition. The key to staying invested through the transition is understanding the trading benchmarks. For U.S.-listed underlying securities, the [NAV](#) of the mutual fund is struck based on the U.S. market close. Therefore, investors would want to execute their ETF trade very close to the U.S. market close or work with their broker to execute a NAV trade. In a NAV trade, the broker provides the client with the ETF NAV price execution, plus a commission for their services. Most mutual funds with international underlying securities have a fair-valued NAV. This means that the NAV of the fund is based on the local market close and then fair-value adjusted based on some chosen proxy tied to the U.S. markets. Because ETFs with international underlying securities provide real-time fair-value pricing, price changes are factored into the current price throughout the day. Therefore, when switching from a Mutual Fund with international underlying securities, investors will want to trade the ETF at or into the U.S. market close. By following these simple guidelines, investors can trade in and out of the two investment vehicles without losing any exposure to the intended market.

We know that operational and market-structure nuances are not top of mind for most investors, but understanding them is a key to achieving your trading goals. On the Capital Markets team at WisdomTree, it is our job to understand these structural nuances and help educate investors on achieving their trading goals in the most efficient way possible.

To learn more about the differences between ETFs and mutual funds, click [here](#).

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

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IMPORTANT INFORMATION

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You cannot invest directly in an index.

DEFINITIONS

T+1 (T+2, T+3) : Abbreviations refer to the settlement date of security transactions. The T stands for transaction date, which is the day the transaction takes place. The numbers 1, 2 or 3 denote how many days after the transaction date the settlement or the transfer of money and security ownership takes place.

Net Asset Value (NAV) : The calculated assets minus liabilities divided by shares outstanding. NAV is the straightforward account of the actual assets in the fund.