

ETF EXECUTION: YOUR CHOICE MATTERS

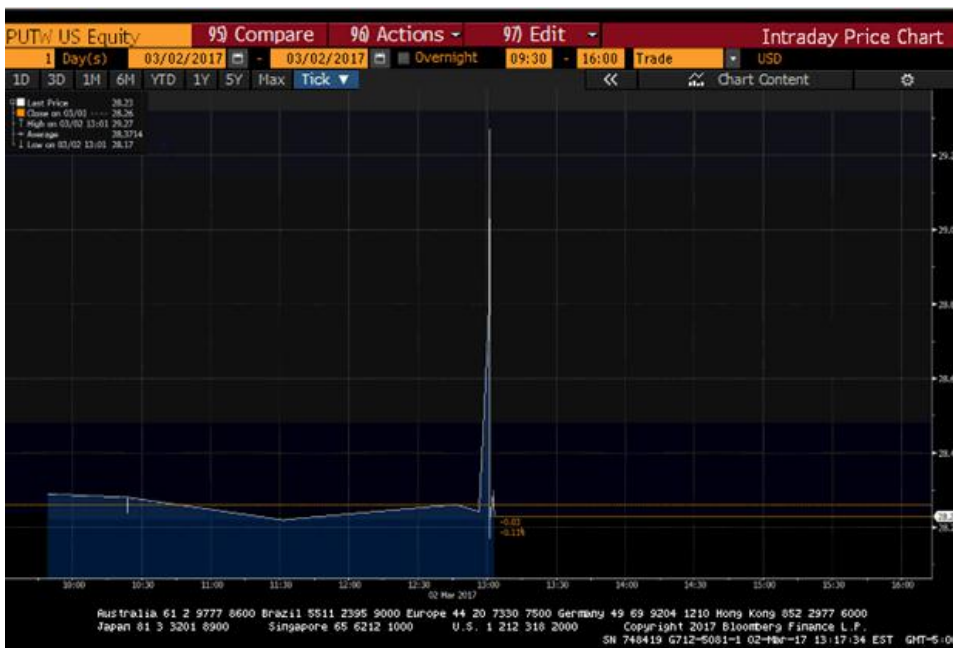
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This blog post is relevant to institutional investors interested in trading exchange-traded funds (ETFs) in significant volume. Individual investors do not always have access to liquidity providers to trade ETFs as referenced below.

The spectrum of sophistication among exchange-traded fund (ETFs) users ranges from new users of ETFs who are just learning and realizing their many benefits to those users who utilize ETFs on a daily basis and incorporate them into their portfolios. No matter where an investor is on this spectrum, what is paramount is to recognize that ETF execution affects your total return. Investors spend the majority of time on asset allocation, but when it comes time to execute, it is imperative to know what resources you have to obtain the best pricing possible.

Let's take a look at two trades as the best way to understand the impact your execution choices can have on your bottom line.

Figure 1



Source: Bloomberg, 3/2/17.

Figure 1 shows an investor, Investor A, who wanted to buy 25,000 shares of the [WisdomTree CBOE S&P 500 PutWrite Strategy Fund, PUTW](#). Investor A was unclear of what his resources were and did not feel like asking for assistance. He ended up entering a [market order](#) causing PUTW to spike 3.6%. PUTW is an investment vehicle—as opposed to a trading vehicle—so while there is ample [liquidity](#) available via the underlying securities, it is imperative to know how to access it and to not just enter a market order. PUTW's underlying securities are [S&P 500 Index put options](#), some of the most

heavily traded options in the marketplace, as they derive their liquidity from the components of the S&P 500. This trade could have potentially been executed without any market impact.

So what could have been prevented? We always recommend that clients use a [limit](#) on all orders, instead of a market order, as a form of protection to ensure that their orders do not get filled outside a specific comfort zone. This is a clear example of how a limit is always encouraged, no matter the size of the order. The underlying securities of PUTW are extremely liquid, and had the investor made a simple phone call and used his resources, which will be discussed later, this could have been easily avoided. No size is ever too small to reach out to the capital markets team or your trading desk.

The second trade example, in figure 2, shows another investor, Investor B, who also wanted to purchase PUTW. On the opposite end of the spectrum, Investor B wanted to purchase 1,942,500 shares of the Fund, a MUCH larger chunk than Investor A.

Figure 2

Time	BMMK	E	Bid/Trd/Ask	E	Size (x100)	AMMK	Cond
14:51:34		D	28.26		.99		T,OL
14:51:34		D	28.26		.01		T,OL
14:51:34		P	28.23		.01		OL
14:51:34		D	28.26		1		T
14:51:34		D	28.26		1		T
14:51:34		D	28.26		1		T
14:51:34		D	28.26		6		T
14:51:34		T	28.21 / 28.26	J	1 x 58		
14:51:34		J	28.26		6.72		R6,IS
14:51:34		J	28.25		1		R6,IS
14:51:34		T	28.21 / 28.26	P	1 x 32		
14:51:34		B	28.25		.28		R6,IS,OL
14:51:34		D	28.26		2		T
14:51:31		D	28.25		19,430		T
14:50:39		T	28.21 / 28.26	J	1 x 33		
14:49:32			/ 28.26	J	x 33		
14:49:32			/ 28.26	P	x 32		
14:49:32			/ 28.26	J	x 33		
14:49:32			/ 28.25	J	x 33		

Source: Bloomberg, 5/5/17.

As you can see, Investor B was able to purchase his entire order, which was almost 20 times the average daily volume, at one penny inside the offer in a single block. His execution was flawless. He was able to take advantage of the ETF structure by using his resources. The client reached out to the capital markets desk here at WisdomTree for a consultation on his trade and then was able to lean on his trading desk to implement his order. His trading desk was able to work with [liquidity providers](#) to tap into the underlying liquidity of PUTW. Investor B was not an expert trader, but he realized that he needed to utilize his resources to ensure a smooth execution experience. This trade example illustrates clearly that liquidity exists beyond what is on screen, and there are expert market makers who can access that resource and pass it back to the investor.

This brings me to the obvious question: Would you rather have the execution experience of Investor A or that of Investor B? I think we can all agree we would much prefer Investor B's seamless execution experience. At WisdomTree we work with many investors and financial advisors on a daily basis, and we often see that investors spend the least amount of time on execution. What is essential to know is that an investor can potentially have a strong execution experience each and every time if they know how to use their resources. The [WisdomTree Capital Markets Desk](#) is always a resource in terms of ETF trading and education, and we are here to help facilitate all trades, both on the way in and on the way out. Furthermore, most investors also have a trading desk through their firm or custodian. One conversation can make a world of difference when implementing your investment vehicle of choice. No size is ever too small to reach out to your trading desk or the capital markets team. Remember, trading impacts your total return, and a simple phone call can ensure the impact is not negative.

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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DEFINITIONS

Market Orders : An order that an investor makes through a broker or brokerage service to buy or sell an investment immediately at the best available current price.

Liquidity : The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid asset.

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Put options : an option to sell assets at an agreed price on or before a particular date.

Limit Orders : An order placed with a brokerage to buy or sell a set number of shares at a specified price or better.

Liquidity providers : Traders that facilitate the trading of ETF shares by conducting the transference of liquidity between the underlying basket shares and the ETF.