

SMALL TRADES MATTER TOO: BEST PRACTICES FOR SMALL LOT TRADING

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This article is relevant to financial professionals and is not relevant to an individual investor. Individual investors should speak with a financial professional about their investing questions.

As the ETF market has matured, investors have become more educated on the underlying [liquidity profile](#) of an ETF and how to leverage their [trading desk](#) resources to source that liquidity in block trades.

Now that ETFs are prolific in asset allocators' portfolios, and the adoption of ETF Model Portfolios continues to rise, what about [small rebalance trades](#) that don't require a [block trade](#)? For high [average daily volume \(ADV\)](#) ETFs like the [WisdomTree India Earnings Fund \(EPI\)](#), [WisdomTree Japan Hedged Equity Fund \(DXJ\)](#), or [WisdomTree U.S. Quality Dividend Growth Fund \(DGRW\)](#), [limit orders](#) for a few thousand shares are rather simple. But for the 90% of ETFs in the marketplace that have lower average daily volume (ADV), historical demand does not warrant a deep [on-screen order book](#). This logical ecosystem practice has made executing smaller trades across portfolios more challenging to asset allocators, but not impossible!

Follow these simple best practices for an easier and better execution experience for small lot trading in lower ADV ETFs.

1. Always use limit [orders](#) when trading electronically.

- If you are concerned about having to watch the order, set the limit 2–3 cents above the offer price. The order will be filled at the [best bid](#) or offer, potentially better than the limit price, but the order type guarantees that the price will not go beyond the limit set.

2. Leverage the capital markets desks at issuers.

- [Capital markets desks](#) can speak with market makers before you trade and let them know to expect increased electronic volume. This practice should add further liquidity depth to accommodate the expected trades that day.
- You can send an email with ticker and share sizes to uscapmks@wisdomtree.com before you plan to trade, and we can speak to the liquidity providers on your behalf.

3. You can always send the order to the trading desk.

- There is no size too small to send orders "[Not Held](#)." Although the order may not warrant a block trade, the trading desk may have access to [algos](#) and [dark pools](#) to execute the smaller lots in an efficient manner on your behalf.

4. NEVER USE MARKET ORDERS. Even the most liquid ETFs are subject to executions at prices away from [fair value](#) due to the time-sensitive and price-insensitive nature of market orders.

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DEFINITIONS

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.

trading desk : Professional traders at platform that work with the market and liquidity providers to source underlying liquidity.

Small rebalance trades : Smaller dollar model accounts or low dollar amount changes to portfolios will result in small trade quantities.

Average daily volume : Average dollar amount traded over the course of a single trading day.

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

On-screen order book : The aggregate share quantities being bid and offered across all listed exchanges.

best bid : REG NMS requires orders get filled at the highest bid or lowest offer (best bid or offer) listed on all exchanges

"Not Held" : An order type preference allowing the platform desk to execute on behalf of the investor.

Algos : Trading order management programs that look to execute trades based on a pre-determined metric. One example is: "volume weighted average price"

Dark pools : A private securities exchange in which investors, typically large financial institutions, are able to make trades anonymously.

Fair value : Also known as "eNAV." It is essentially an indicative value (IV) that is made in real time by calculating the basket value on every underlying tick and by adjustments that account for updated market new.