

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 uscapmkt@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.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Funds focusing their investments on certain sectors may be more vulnerable to any single economic or regulatory development. This may result in greater share price volatility. Please read each Fund’s prospectus for specific details regarding the Fund’s risk profile.