

Trading More Than the Average Daily Volume

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Capital Markets

This 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. We answer the same question from clients every day: "It's always easy to get in, but what if I need to get out?" When fear and volatility spike in the marketplace, investors worry that they will not be able to liquidate their investments. This concern is understandable, but it is also important to recognize that ETFs are just a wrapper for underlying investments. Our Capital Markets team has spent the last five years working with traders, market makers and liquidity providers across the entire ETF trading universe to make sure they understand how WisdomTree ETFs are structured and managed. As a result, the trading community feels more comfortable trading our products in the marketplace and providing block liquidity directly to our client base via the block ETF market. When our clients need instant liquidity, we provide them access through a network of liquidity providers across the ETF landscape. For example, on March 3, 2014, a client wanted to unwind 277,375 shares of the WisdomTree Chinese Yuan Strategy Fund CYB (approx. \$7,000,000 notional) in one trade. Prior to this trade, the average volume of CYB year-to-date (January 2 – February 28) was approximately 56,000 shares per day, as illustrated in the chart below.

<HELP> for explanation.

CLOSE/PRICE										Page 1/1	Historical Price Table
WISDOMTREE CHINESE YUAN (CYB US) PRICE 25.2599 D \$											
Range	01/02/2014 - 02/28/2014		Period	Daily		High	25.60		on	1/16/14	
	Currency USD		Market	Trade		Avg	25.5097		Vol	56189	
						Low	25.27		on	2/26/14	
DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME	DATE	PRICE	VOLUME
F 2/28	25.30	48352	F 2/ 7	25.55	60745	F 1/17	25.56	20332			
T 2/27	25.33	17146	T 2/ 6	25.55	108812	T 1/16	H 25.60	63108			
W 2/26	L 25.27	183773	W 2/ 5	25.55	14361	W 1/15	25.56	22202			
T 2/25	25.28	150145	T 2/ 4	25.56	49317	T 1/14	25.55	28016			
M 2/24	25.3601	47774	M 2/ 3	25.51	41103	M 1/13	25.57	25033			
F 2/21	25.44	97713	F 1/31	25.55	197164	F 1/10	25.54	15161			
T 2/20	25.45	108810	T 1/30	25.56	44312	T 1/ 9	25.52	23054			
W 2/19	25.53	29844	W 1/29	25.53	13190	W 1/ 8	25.50	56531			
T 2/18	25.56	61569	T 1/28	25.556	29668	T 1/ 7	25.53	24445			
M 2/17			M 1/27	25.55	119129	M 1/ 6	25.50	26426			
F 2/14	25.56	30353	F 1/24	25.51	66886	F 1/ 3	25.49	29568			
T 2/13	25.54	31376	T 1/23	25.53	32365	T 1/ 2	25.53	104572			
W 2/12	25.56	24895	W 1/22	25.57	22790						
T 2/11	25.55	36909	T 1/21	25.55	99766						
M 2/10	25.58	40826	M 1/20								
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2014 Bloomberg Finance L.P. SN 846341 6922-3397-3 10-Mar-14 10:11:41 EDT GMT-4:00											

The average trading volume of the WisdomTree Chinese Yuan Strategy Fund (CYB), 1/2/2014–2/28/2014. Source: Bloomberg.

The average daily volume of an ETF can be irrelevant as long as the underlying securities in the ETF have sufficient liquidity. CYB invests in Chinese yuan (CNY) forwards, Chinese yuan in Hong Kong (CNH) forwards and CNH time deposits—all of which are extremely liquid instruments that help CYB achieve its stated exposure. The client's execution is shown below.

CYB US \$		25.22	-0.13		P25.22 / 25.27P	6x7
At 9:56	Vol 6,101	0 25.20P	H 25.24P	L 25.20P	Val 153,780	
CYB US Equity		1 Actions	97 Settings	99 Feedback	Page 1	Trade/Quote Recap
USD						
Trade Recap		Quote Recap				
From	03/03/14	13:30:00	Min Vol			Cond
To	03/03/14	14:13:00	Price Range		High 25.3199	Low 25.23
Time	BMMKR	E	Bid/Trd/Ask	E	*Size	AMMKR
14:12:30		K	25.25/25.29	P	6x5	
14:11:52		K	25.25/25.29	P	6x6	
14:11:42		K	25.25/25.29	P	6x7	
14:11:42		K	25.25/25.29	P	6x6	
14:11:39		D	25.25		2773.75	T
14:10:52		K	25.25/25.29	P	6x5	
14:09:57		D	25.25		1	T
14:09:04		P	25.25/25.29	P	16x5	
14:08:27		P	25.25/25.29	P	16x6	
14:08:17		P	25.25/25.29	P	16x7	
14:08:17		P	25.25/25.29	P	16x6	
14:08:05		D	25.25		1	T
14:07:31		D	25.2899		1	T
14:07:20		P	25.25/25.29	P	16x5	
14:06:50		P	25.25/25.29	P	16x6	
14:06:40		P	25.25/25.29	P	16x7	
14:06:40		P	25.25/25.29	P	16x6	
14:06:23		D	25.25		1	T
14:05:34		P	25.25/25.29	P	16x5	
14:05:02		P	25.25/25.29	P	16x6	
Price White: Best qt Amber: MM qt Gray: Prev qt *Size scaled by 100 Zoom 100%						
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000						
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2014 Bloomberg Finance L.P.						
SN 846341 6922-3337-3 10-Mar-14 9:57:53 EDT GMT-4:00						

Source: Bloomberg, as of 3/3/14.

The market at the time was 25.25 (bid) – 25.29 (ask) and the client was able to sell the entire block—all 277,375 shares—in one piece on the bid at 25.25. The client traded substantially more shares than the average daily volume for the previous two months. If the underlying securities are accessible and liquid, then that liquidity can easily translate to instantaneous ETF liquidity. This exemplifies the power of the ETF structure, since the client was able to trade almost 400% of the average daily volume (ADV) in one trade. When we structure and launch our ETFs, we keep close watch on liquidity in the underlying markets that can directly affect the liquidity available in the ETF. The strength of the ETF structure is that it makes average daily volume essentially irrelevant, as long as investors have access to liquidity providers or traders that can transfer the liquidity in the underlying markets into the ETF.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. This Fund focuses its investments in China, thereby increasing the impact of events and developments associated with the region, which can adversely affect performance. Investments in emerging or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. Derivative investments can be volatile, and these investments may be less liquid than other securities, and more sensitive to the effects of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. Unlike typical exchange-traded funds, there are no indexes that the Fund attempts to track or replicate. Thus, the ability of the Fund to achieve its objectives will depend on the effectiveness of the portfolio manager. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.