Exchange Traded Funds (ETFs) are an increasingly popular investment. Traditional ETFs combine the trading flexibility of stocks with the diversification of a mutual fund to create an investment solution that can help meet a variety of investing needs. However, buying and selling ETFs can pose challenges for even the most seasoned investors. Below are a few points to keep in mind when trading ETFs.

**Order types and considerations**

Since ETFs trade like stocks, you can use many types of orders to trade them, such as market orders or limit orders. Three different ways to place a buy order for an ETF:

- **Place a market order** if your priority is getting the order executed. A market order means, “I want X shares of this ETF at the best available price you can get them in the market now.” This means your order is likely to be filled, but you are taking the risk that the price will rise before your order is filled, so you may end up paying more than you wanted for your ETF.

- **Place a limit order** if your priority is price. A limit order states, “I want X shares of this ETF, but I don’t want to pay any more than Y dollars per share.” If there are shares to be found at your price or lower, your order will be filled for you at the best possible price. But, if no one is willing to sell at your price, your order will go unfilled (you will have “missed the market”).

**Schwab’s Guidance**

Place a **marketable limit order** to balance both execution and price. This is a limit order where you specify a price equal to or greater than the posted offer price (but no higher than what you are willing to pay). That way, your order is likely to get filled immediately if the market doesn’t move, and you avoid the risk of paying far more than you intended.

For example, say that you place a limit order to buy 100 shares of an ETF currently priced $20.65 for no more than $20.67 a share. In this case, your order will get filled as long as the market doesn’t move above $20.67 right away. Furthermore, if the market stays at $20.65, you’ll still get that price—your broker has to get the best possible price for you, as long as it’s no higher than your limit.

**Trading near the market open or close**

Markets can be unpredictable very early and very late in the day. It’s not unusual to have a rush of orders at the open or close, which can lead to bigger than normal ups and downs in prices. These short-term swings make it more likely that you may end up buying an ETF at a premium (a price higher than the true value of the underlying stocks or bonds) or selling at a discount, so we recommend trying to avoid trading during the first and last 30 minutes of each trading day.

**Consider the size of the trade**

Investors looking to trade tens of thousands of shares of an ETF at a time may not get the best possible price by executing a large order online—even if using a limit order. Instead, investors should consider calling their broker, who likely has traders that are specially trained to deal with large orders. For an ETF, they might work with an authorized participant to create new shares of the ETF rather than trying to find shares on the secondary market, which can lead to better prices for the investor.
Be aware of ETF constituents' trading hours and liquidity

Investors are likely to get the best pricing at times when the markets for the underlying securities in the ETF are open. For U.S. stocks and bonds this isn't generally a problem, since they tend to trade during the same hours as ETFs. International stock and bond ETFs, however, are likely to trade more smoothly (especially for big orders) when the appropriate international markets are open.

Asian and Australian markets don't have any overlap with U.S. markets, but European markets do. Investors trading an ETF whose underlying securities are based in Europe should try to trade during the first few hours of the day, when European markets are still open.

Keep track of distribution dates

Not all ETFs pay dividends, but many do make some type of regularly scheduled distribution. Be aware of an ETF's distribution dates, because the ETF will trade lower by the amount of the distribution on the ex-dividend date.

Watch for events that could lead to market volatility

Be aware of earnings reports and general economic releases, because these types of events may cause volatility in the market and lead to a widening of ETF bid/ask spreads. Premiums or discounts to net asset value (NAV) may also result from this type of volatility, creating higher costs for the investor.

Remember, Schwab is here to help

- For more information or to start trading ETFs, visit www.schwab.com/etf
- To explore our investing workshops on ETFs, visit www.schwab.com/workshops
- To watch an 8-minute interactive ETF tutorial, visit www.schwab.com/etfvideo
- For a pre-screened list of low-cost ETFs, view our ETF Select List™ at www.schwab.com/etf
- To speak with a Schwab representative, call 1-800-435-4000

Important Disclosures

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 800-435-4000. Please read the prospectus carefully before investing.

Investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost.

Brokerage Products: Not FDIC-Insured • No Bank Guarantee • May Lose Value

International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks.

This article is for informational purposes only and is not an offer, solicitation or recommendation that any particular investor should purchase or sell any particular security or pursue a particular investment strategy. The types of securities mentioned herein may not be suitable for everyone. Each investor needs to review a security transaction for his or her own particular situation. All expressions of opinion are subject to change without notice in reaction to shifting market conditions.

This information is not intended to be a substitute for specific individualized tax, legal or investment planning advice. Where specific advice is necessary or appropriate, Schwab recommends consultation with a qualified tax advisor, CPA, financial planner or investment manager.