How to trade an ETF?

Exchange Traded Funds, or ETFs, are managed funds that are traded on ASX, just like shares.

ETFs combine characteristics of traditional unlisted managed funds with the benefits of listed shares. ETFs are passively managed to track an index by investing in the securities that make up the index, therefore ETFs generally have lower management costs than actively managed funds. ETFs offer diversification, transparency of holdings and tax advantages.

As ETFs trade on ASX they also benefit from simple trading and intraday pricing. This means you can buy and sell them in the same way you buy and sell a share, but with an ETF you get exposure to a diversified portfolio of securities in a single trade, saving you time and money.

ETF trading best practices

Avoid certain days and time

- Market Open: Avoid the first 15 minutes of the trading day when ETFs are less liquid and spreads are wider. The ASX opens in stages starting with companies beginning with the letter A and finishes 10 minutes later at Z. It takes about 10 minutes and during this time the Market Marker will be quoting prices with wide spreads as they cannot accurately value the full portfolio until everything opens.
- Market Close: Similar to open, it is difficult for the Market Maker to value the whole portfolio at market close so avoid trading in the last 15 minutes of the trading day.
- Market Closures: It is important to take note of when markets are closed. For example, international holidays could impact the Market Maker's ability to value associated ETFs that they are exposed to.
- Be aware of international trading: ETFs with significant exposure to overseas markets tend to trade better (i.e. at tighter spreads), when the foreign market is open. For example, a China ETF will trade at tighter spreads when Chinese markets are open.

Use limit orders

- This type of transaction allows you to set the bid or ask price at which you are willing to buy or sell. You will not pay any more, or sell for any less, than your limit price.
- Trade execution through limit orders provides you certainty and protection for your trade price.
- If you set your limit below the ask (when buying) or above the bid (when selling), there is a risk your transaction will not occur.
- The involvement of a Market Marker usually ensures limit orders at the fair value will be executed.

Avoid market orders

A market order guarantees you buy or sell your units but does not guarantee the best price and exposes you to paying more, or selling for less, than the fair value of the ETF units. With a market order you lose price control; experienced portfolio managers generally trade with limit orders.

Refer to the iNAV

The iNAV is the 'indicative Net Asset Value' of an ETF published by ASX. The iNAV changes based on changes in prices of the shares held in an Australian equity ETF portfolio. The iNAV allows investors to track the estimated fair value of an ETF unit to help decide when to buy and sell. You cannot buy ETF units at the iNAV as the Market Maker will always place a spread to make money for their services. You can buy/sell at the iNAV plus/minus a spread. The iNAV lets you monitor the size of the spread, which can change throughout the day depending on market conditions.

Keeping the market informed

VanEck is required to keep the market fully informed about anything that may impact the price of our ETFs by announcing relevant information via ASX and on our website. You can arrange to receive notice of any announcements relevant to your investments through your financial adviser, stockbroker or online broker.

VanEck will provide details in advance of any distributions by its ETFs to ASX for public release to the market.

Any news affecting the price of our ETFs (such as distributions) can be found at website www.asx.com.au or at www.vaneck.com.au

Contact us

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