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.

How to trade VanEck ETFs on ASX

Being quoted on ASX means ETFs gives you the flexibility to trade throughout the day, just like trading shares.

Step 1 – Establish a stock broking account

In order to trade ETFs (or other shares quoted on ASX), you need to use a stock broker. You can do this by authorising your financial adviser to trade on your behalf; by establishing a relationship with a stockbroking firm; or by opening an account with an online broker.

Step 2 – Identify the correct ASX code

You then need to know the ASX code of the ETF you want to trade. This is a three or four letter code. You can find out the code from the ETF issuer, the ASX, from your financial adviser or broker.

Step 3 – Placing an order

When you buy ETF shares you enter a 'bid' price (think about 'bidding' at an auction). The 'bid' price is the price you are prepared to pay. When you sell ETF shares you enter an 'ask' price (think about 'asking' people to pay). The 'ask' price is the price at which you intend to sell.

There are two ways to input your buy or sell order:

Market Order – this means you will buy or sell at potentially any available market price. This type of order guarantees your trade, but leaves you exposed on price.

Limit Order – this allows you to set the bid or ask price. This means you will not pay (or receive) any more or less than your limit price. This type of order protects your price but does not guarantee your trade.

Step 4 – Trade execution, confirmation and settlement

After you trade to buy or sell units you will be asked to confirm your order. Check the details of your transaction carefully. If it is correct and you confirm your transaction the trade will be offered to the market.

The trade is only 'executed' once it is accepted by someone in the market. You can cancel or amend your offer up until the time it is accepted by another person. Once it is accepted, you will receive a confirmation of the price and number of units for which the transaction was executed.

The date of trade is executed is called the 'trade date' and often referred to as 'T'. The trade is then settled by the payment of cash and transfer of units, three days later, or on 'T + 2'. If you are buying units, you much have the relevant amount of money available in your trading account on T+2.

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 spread when Chinese markets are open.

Limit versus market orders

This is best explained by an example. Below is a screen shot of orders investors have placed for VanEck Vectors Morningstar Wide Moat ETF (MOAT). When you invest through your online brokerage account you may see a similar screen.

Example: Trading screen for MOAT

E	CC	Time	Total	Mmkr	Size	Bid	Ask	Size	Mmkr	Total	Time	CC	E
AT		13:10	3500	SUSH	3500	48.92	49.04	6500	SUSH	6500	13:10		AT
AT		13:10	8000	SUSH	4500	48.91	49.06	8500	SUSH	15000	13:10		AT
AT		12:58	8509	SHAW	509	48.85							
AT		04:31	9009	COMM	500	48.68							
AT		04:31	9053	ETRD	44	48.50							
AT		04:31	9338	COMM	285	48.00							
AT		07:08	9546	THRD	208	48.00							
AT		04:31	9571	COMM	25	47.50							
AT		04:31	9696	COMM	125	46.05							
AT		04:31	9811	ANDW	115	46.00							
AT		04:31	10311	COMM	500	46.00							

In the above example the highest 'bid' price for MOAT is \$48.92. This is the highest price buyers are willing to pay for MOAT shares. The lowest 'ask' price is \$49.04. This is the lowest price sellers are willing to sell MOAT shares, but the number of shares for sale (i.e. available to buy) at \$49.04 is limited to 6,500.

If you want to buy more than 6,500 shares you can do this more effectively if you use a limit order as opposed to a market order because you will potentially limit the price you pay to \$49.04 for your total order.

For example, if you place a limit order to bid on 15,000 shares at \$49.04, 6,500 shares would be bought immediately at that price. If the value of MOAT shares remains at \$49.04, more shares will become available (from a market maker) and you will be successful in buying all the shares at that price. If, however, the value of the MOAT shares moves above \$49.04, your 'bid' for the remaining 8,500 shares will not be successful and you will need to either wait to see if the price comes back, or increase your bid price.

If on the other hand you execute a market order to buy 15,000 shares, you would get 6,500 at the ask price of \$49.04 and the remaining 8,500 at \$49.06, being the next ask price on the screen. Your order would be filled but you have paid an extra two cents per share for 8,500 shares by placing a market order instead of a limit order.

Trade execution through a limit order provides you certainty and protection for your trade price however it means your trade won't happen if the market moves above your bid price. So while a limit order limits the price, it does not guarantee the trade. Conversely, while a market order guarantees the trade, it does not limit the price.

Refer to 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. The iNav lets you monitor the size of the spread, which can change throughout the day depending on market conditions.

ASX market announcement

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 on the ASX website www.asx.com.au or at www.vaneck.com.au

Contact us

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Important notice: