

ETF trading strategies:

What you need to know to trade ETFs successfully



Ready to start buying and selling ETFs? Find out the different ways to execute an ETF trade and what to consider when choosing an ETF trading strategy.

If you already trade securities, then you will have access to a custodian and/or broker/market maker to also trade ETFs. ETFs trade on major stock exchanges and are priced by market makers throughout the trading day. This intraday trading capability is a key difference over mutual funds, which can only be bought or sold at the end of the trading day at the fund's net asset value (NAV).

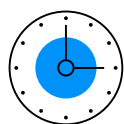
What are the main ETF trading strategies?

ETF investment has grown rapidly, and in recent years, actively managed ETF adoption has accelerated.

Trading active ETFs is no different to trading index-tracking ETFs. There are three main ways to trade: NAV trading; risk trading; and agency/algorithmic trading.

Execution Strategy	Description	Potential Advantages	Considerations
NAV trading	Trading vs. a future NAV per share (T or T+1). Price is quoted as NAV plus, or minus in basis points.	NAV provides a transparent daily valuation point that is calculated independently. Can be useful for contingent trades – for example, when transitioning exposures.	Investor bears market risk until the NAV is calculated. The final price is known the day after NAV publication.
Risk trading	Trading immediately at an intraday price.	Immediate risk transfer can be useful when implementing a market view. Transparent all-in cost.	The market maker bears the risk and therefore will factor this into pricing.
Agency/Algorithmic trading	Employing a broker to work the order by accessing the available ETF and underlying (security) liquidity. Can also be achieved using algorithms.	Risk and market impact is managed by agency broker. Information leakage is reduced.	Investor bears market risk. The order may not be fully executed.

Five ETF trading tips



1. Know when to trade

Avoid trading at the European market open and just before the close, when wider spreads are generally observed. Knowing primary market dealing cut-off times is also important as pricing may become marginally wider if the market maker (authorised participant) is unable to create or redeem their position in the primary market.



2. Consider the trade objective

Clients should consider factors such as urgency, size, information leakage, prevailing market conditions, and the underlying ETF exposure that they are trading.



3. Consider the order type when trading on-exchange

A common and effective method is using a limit order, which gives you control over the price and pace at which the ETF trade is executed by specifying to buy or sell a set number of shares at a stated price (the limit) or better. Market orders, on the other hand, should be treated with caution. While they provide immediate execution, the price achieved could be far higher (or lower) than expected given order book depths.



4. Assess where the ETF is trading relative to fair value

For risk pricing, the intraday net asset value (iNAV) can help gauge if the bid-ask spread of the ETF is in line with the fair value of the underlying portfolio. New ETF fair value algorithms can also assist further here, and this exciting area is evolving constantly.



5. Get to know our ETF capital markets team

J.P. Morgan Asset Management has a dedicated team of ETF trading and liquidity specialists whose role is to work with portfolio managers, authorised participants, market makers and stock exchanges to help assess true ETF liquidity and assist with efficient trade execution.

Conclusion?

ETFs have become prevalent in modern investment portfolios due to their flexibility and liquidity. The ability to trade ETFs throughout the day in the secondary market, coupled with the primary market creation and redemption mechanism, ensures robust liquidity. While trading ETFs can be simple, there is no one-size-fits-all approach, so maintaining an open dialogue with ETF distribution and capital markets teams as you seek liquidity is crucial.

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