Matthews Asia

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Trading Tactics: ETF Order Types Matter

Better control of buy and sell prices is one of their many benefits exchange-traded funds (ETFs) offer investors. Understanding trading techniques can help you manage your portfolio for better outcomes.

Market versus Limit Orders

Market and limit orders are the two basic order types—understanding the difference between the two is important for successful trading.

A **market order** is an order to immediately buy or sell an ETF at the best available price. There is no price control, and while it typically delivers instant execution, the order may be filled at a price that is far from the current bid/offer, particularly during times of market volatility.

A **limit order** is an order to buy or sell an ETF with a restriction on the maximum or minimum price to be paid or received. A buy limit order can only be executed at the limit price or lower, and a sell limit order can only be executed at the limit price or higher. While limit orders do not guarantee full execution, they offer investors some protection against unforeseen market moves or a momentary lack of deep bids and offers. Using limit orders in a reasonable range of fair value can help investors trade successfully with more control, understanding that the full order may not be executed.

Stop-Loss Orders

A **stop-loss order** is an order to buy or sell an ETF at the market price once it has traded at, or through, a specified or 'stop' price, triggering a market order. While this can be a good way to passively manage positions, it exposes investors to the risks of market orders. Stop-loss orders may be triggered during times of higher volatility, which are usually not good times to use market orders[1].

A stop-loss limit order is an order to buy or sell an ETF at the market price once the ETF has traded at, or through, a 'stop' price, with a limit price attached to it. The objective is to activate a limit order at a specified price. Using limits when trading gives investors price control of their orders, but stop-loss limit orders do not ensure execution.

Block Execution

When trading a large block of an ETF or one that has lower average daily volume, it's important to use the trading tools available to you, including your block ETF trading desk. Investors often believe that only large institutions have access to liquidity providers, who can access the underlying liquidity of an ETF, but that is not the case. Most custodians and wirehouse broker-dealers have agency block execution desks which can be valuable resources their clients. While each platform has its own system, it's important to remember that investors must select their order as "not held" to allow the desk to execute on their behalf. An order marked or defaulted to "held" will be sent directly to the market and executed without discretion.

Learn more about our actively managed ETFs
at MatthewsAsia.com/ETFs

1. The New York Stock Exchange no longer accepts or honors stop-loss orders as of February 26, 2016.

Important Information

You should carefully consider the investment objectives, risks, charges and expenses of the Matthews Asia Funds before making an investment decision. A prospectus or summary prospectus with this and other information about the Funds may be obtained by visiting matthewsasia.com. Please read the prospectus carefully before investing at it explains the risks associated with investing in international and emerging markets.

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