Direxion
ETFs | Funds

ETF Liquidity

FOUR RULES TO TRADE BY

RULE #1.

ETF VOLUME ALONE IS A POOR MEASURE OF LIQUIDITY.

RULE #2.

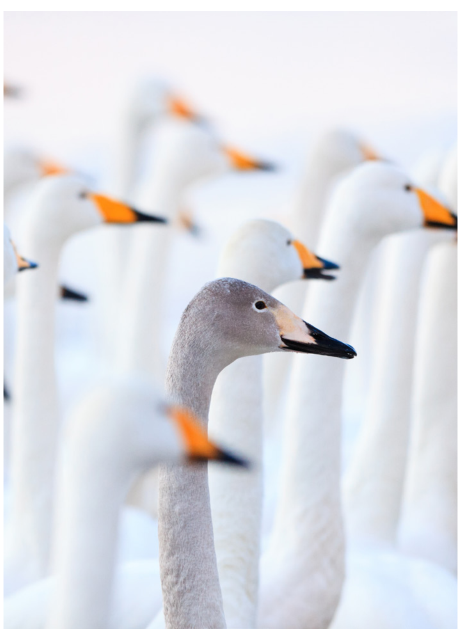
ALWAYS USE LIMIT ORDERS.

RULE #3.

AVOID TRADING AT THE OPEN OR AT THE CLOSE.

RULE #4.

KNOW THE INAV.



Liquidity, transparency, real-time trading, and relatively low management fees are the reason why ETFs are becoming more and more popular. Still, there are key characteristics that investors should better understand in order to trade them properly and seek the best order execution.

Of course the largest ETF names are the simplest to trade due to their tight spreads (difference between the bid and ask). Tight spreads signal liquidity from the large volume of shares trading throughout the day. Traders feel comfortable that they can buy and sell, or sell short, these ETFs.

But what about ETFs that don't have millions of shares trading every day? Here are four tips to consider when trading ETFs:

RULE #1: ETF VOLUME ALONE IS A POOR MEASURE OF LIQUIDITY.

ETFs are just a "wrapper" for the underlying basket of securities that they are holding. So the liquidity of an ETF is based more on the volume of those underlying securities, than the volume of the ETF itself. If the underlying securities you are accessing through the ETF are liquid, you should have confidence you will be able to easily enter and exit the position in the ETF.

In fact, the volume you see on your trading platform's screen may NOT represent the actual liquidity of the ETF. The volume data along with the bid/ask spreads will depend on your trading platform's level of data access.

Call your broker and make the trade live if you have any doubt on whether or not there's enough liquidity to get a fair price.

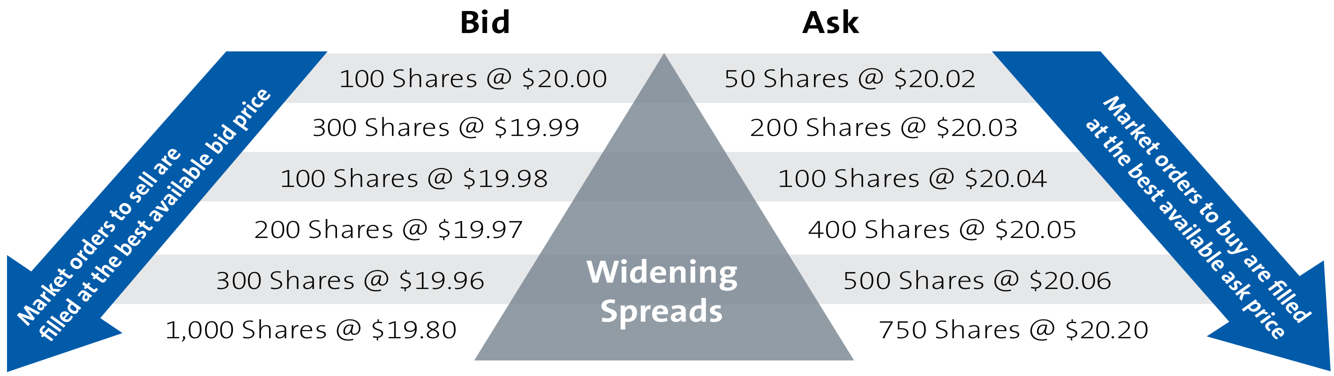
Trading large blocks: If you're considering a trade of 25,000 shares or more, contact your trading desk. Should your trading desk need assistance, Direxion can help facilitate your order through an Authorized Participant (AP). APs are large institutional market makers that use their ability to exchange large blocks of the ETF (creation units) with their underlying securities to help you enter into, or exit out of, sizable positions without affecting the ETF share price, regardless of the market volume of the ETF (See The Basics of ETF Liquidity brochure for more detail).

RULE #2: ALWAYS USE LIMIT ORDERS.

Market orders leave you vulnerable and at the mercy of the seller. Your order could get filled at various unfavorable prices, depending on what's happening on the other side of the trade. Place a buy or sell order within several cents of the bid or ask price to get the best execution.

Hypothetical example of a market order: If a trader enters a market order to buy 2,000 shares, the trade will execute at the best offer level. In this example, the best offer is 50 shares @ $20.02. If the number of shares at that price are exhausted, the order will move to the next best offer (200 shares @ $20.03). This process continues until your order is complete, which may be at a much higher price. For a market order to sell, the same process takes place down the bid side of the spread. A limit order will help you get the best order execution.

Hypothetical ETF: XYZ Hypothetical Market Order: 2,000 Shares



For illustrative purposes only.

In these two scenarios, the average price received on a market order to buy 2,000 shares is $20.11. The average price on the market order to sell is $19.89. Neither trade received the optimal execution.

RULE #3: AVOID TRADING AT THE OPEN OR CLOSE.

Trading in the first or last 30 minutes of the session is not a good idea in general. This rule goes for any security, but it's especially true for ETFs. At the start of each trading session, big institutional traders, speculators, market makers, and authorized participants unwind their overnight positions or gain needed exposure to certain assets for the trading day. So, if you can, wait a half hour or so, and then start trading.

RULE #4: KNOW THE INAV.

Since ETFs trade throughout the day, you need to assess its current value as defined by the current value of the underlying securities. This can be done by monitoring the funds iNAV.

The iNAV is a measure of the intraday net asset value (NAV) of the ETF. It's updated every 15 seconds, and gives an updated measure of the intrinsic value of the underlying basket of securities.

You can get the iNAV for any domestic ETF by simply entering the ticker symbol, then a dash, then "IV" on your platform's trading screen. To find the iNAV of the Direxion Zacks MLP High Income Shares (ZMLP), just type "ZMLP-IV" (some platforms may use a period instead of a dash – "ZMLP.IV"). Note: International ETFs do not have iNAV quotes.

As you seek better outcomes for your portfolio it's important to arm yourself with the trading knowledge to ensure the best ETF order execution. Following these four rules, may help you do just that. Call us directly at 866-476-7523, for help executing a specific trade, or with questions about volume and liquidity for any Direxion Shares ETFs.