



# How to purchase and sell your ETFs

Investors can purchase or sell ETFs the same way they trade any other security—with an order sent to a broker. However, ETFs have certain characteristics that make some order types more advantageous than others. Following are the three most common order types that an investor should understand before participating in the ETF market:

## 1 Market order: Simple, efficient, but use wisely

Market orders are the simplest and represent the default order at most brokerages. It is simply an order to buy or sell a security at the best available price in the market at that moment. The advantage of a market order is that the investor is guaranteed to buy or sell as quickly as possible, because market orders prioritize speed of execution. The disadvantage of a market order, however, is that the investor does not know exactly what price will be paid or received for that security. The market can change very quickly as rapid volatility and liquidity changes can influence the prevailing market price.

The price one receives or pays on market orders can, at times, be particularly unpredictable for ETFs due to event driven market volatility that may result from political or economic announcements, for example. When trading during these periods, a market order provides no protection to the investor.

## 2 Limit order: Gives you control, but may not be filled

A limit order is an order to buy or sell an ETF at a specified price. Unlike market orders, limit orders prioritize price over speed of execution. As their name implies, they enable investors to set a limit on the price of their purchase or sale. At the brokerage, limit orders are ranked according to price competitiveness and counterparty market participants have access to the most preferable order first. Therefore, it is not guaranteed that a limit order will be executed in full or at all during the trading day.

Another risk of these orders is that investors may not be able to trade their security at all if they specify a non-competitive price.

However, when market volatility occurs, a limit order can provide some protection from unexpected political or economic announcements that may cause a significant change in an ETF's unit price.

### 3 Stop-loss order: Some downside protection, but volatility can undermine

A stop-loss order helps curb losses or protect gains by triggering a market order for an ETF once it reaches a specified unit price. Once the market hits this price, even if it is due to temporary market volatility, the ETF will be sold at the prevailing market price.

It is important to be aware that the stop-loss order is a longer-term conditional order that can stay in the market until it is filled or cancelled by the investor. The disadvantage is that once the stop-loss price is triggered, the sale price the investor realizes from the resulting market sell order may be lower than the unit price specified by the stop-loss order. However, the advantage of a stop-loss order is that it gives investors an automatic way to exit their position once the specified price is reached.

	Pro	Con
<b>Market Order</b>	Order is usually filled quickly	No control over the price at which the order is filled
<b>Limit Order</b>	Control over the price at which the order is filled	Chance the order will not be filled
<b>Stop-Loss Order</b>	Helps curb losses or protect gains.	No control over the price at which the order is filled once the stop-loss price is triggered.

#### About RBC Global Asset Management

RBC Global Asset Management (RBC GAM) is the asset management division of Royal Bank of Canada (RBC) and includes institutional money managers BlueBay Asset Management and Phillips, Hager & North Investment Management. RBC GAM is a provider of global investment management services and solutions to institutional, high-net-worth and individual investors through separate accounts, pooled funds, mutual funds, hedge funds, exchange-traded funds and specialty investment strategies. The RBC GAM group of companies manage more than \$385 billion in assets and have approximately 1,300 employees located across Canada, the United States, Europe and Asia.

#### To find out more about RBC ETFs: Visit [www.rbcgam.com/etfs](http://www.rbcgam.com/etfs)

The information contained in this article does not constitute an offer or solicitation to buy or sell any investment fund, security or other product, service or information to any resident of the U.S. or the U.K. or to anyone in any jurisdiction in which an offer or solicitation is not authorized or cannot legally be made or to any person to whom it is unlawful to make an offer or solicitation. The information is not intended to provide specific financial, investment, tax, legal or accounting advice for you, and should not be relied upon in that regard. You should not act or rely on the information without seeking the advice of a professional.

® / ™ Trademark(s) of Royal Bank of Canada. Used under licence.  
© RBC Global Asset Management Inc. 2016