

## ETF liquidity

Large and frequently traded ETFs that have been around for some time are more likely to have good liquidity – this means you’ll be able to buy and sell them with minimal trading costs and at a price that is close to the value of the securities they hold.

### 4 features help you assess an ETF’s liquidity:

1. **Daily trading volume** – the higher it is, the more liquid the ETF
2. **Bid/ask spread** – the difference between the price at which you would buy the ETF (ask, or offer, price) and immediately sell it (bid price)
  - When you transact in ETFs you pay out that spread
  - The less liquid the ETF as well as the securities in it, the wider the spread (because transacting in less liquid securities is more expensive)

Bid price – the price that potential buyers are bidding  
Ask (offer) price – the price that potential sellers are offering  
Therefore you will pay the ask/offer price when you buy, and receive the bid price when you sell. The bid price is usually slightly lower than the ask price.

3. **Net assets (value of securities in the ETF) or its market cap (capitalization, that is number of shares times share price)** – size of the ETF
  - ETFs that remain small are also at a bigger risk of being discontinued by the provider
4. **Premium/discount to NAV** - reflects the ETF’s cost of trading its securities and should be small in normal, calm markets
  - NAV stands for “net asset value”, which is calculated as a weighted average of the prices of all the stocks or bonds the ETF holds; it is officially calculated by each ETF at the end of the day
    - For fixed income (bond) ETFs, NAV is based on bid prices of the bonds in the ETF (the price at w
    - For equity ETFs, the NAV is based on the last traded prices of its stocks
  - It’s normal for the premium/discount will move around but you should expect a stable range for each ETF. This range will be wider for ETFs that have international, less liquid assets. Larger, more popular and liquid ETFs that invest in popular and liquid markets tend to trade close to NAV

### Where to find this information?

1. You can check daily trading volume and the size of the ETF in several places, for example <https://web.tmxmoney.com/quote> (it’s easiest to do by ticker symbol; volume and its history is on the chart, and market cap in the table below the chart)
2. The bid/ask spread will be shown in your online broker account, in the trading area. Morningstar ETFs also show it (the Quicktake report)
3. The current premium/discount to NAV should be shown on the provider’s website, along with the size of the assets.