TRADING MORE THAN THE AVERAGE DAILY VOLUME

Zach Hascoe – Capital Markets
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This post is relevant to institutional investors interested in trading exchange-traded funds (ETFs) in significant volume. Individual investors do not always have access to liquidity providers to trade ETFs as referenced below. We answer the same question from clients every day: "It's always easy to get in, but what if I need to get out?" When fear and volatility spike in the marketplace, investors worry that they will not be able to liquidate their investments. This concern is understandable, but it is also important to recognize that ETFs are just a wrapper for underlying investments. Our Capital Markets team has spent the last five years working with traders, market makers and liquidity providers across the entire ETF trading universe to make sure they understand how WisdomTree ETFs are structured and managed. As a result, the trading community feels more comfortable trading our products in the marketplace and providing block liquidity directly to our client base via the block ETF market. When our clients need instant liquidity, we provide them access through a network of liquidity providers across the ETF landscape. For example, on March 3, 2014, a client wanted to unwind 277,375 shares of the WisdomTree Chinese Yuan Strategy Fund CYB (approx. $7,000,000 notional) in one trade. Prior to this trade, the average volume of CYB year-to-date (January 2 – February 28) was approximately 56,000 shares per day, as illustrated in the chart below.

<HELP> for explanation.

CLOSE/PRICE Page 1/1 Historical Price Table
WISDOMTREE CHINESE YUAN (CYB US) PRICE 25.2599 D $
Range 01/02/2014 - 02/28/2014 Period Daily Currency USD Market Trade
High 25.60 on 1/16/14
Avg 25.5097 Vol 56189
Low 25.27 on 2/26/14

	DATE	PRICE	VOLUME		DATE	PRICE	VOLUME		DATE	PRICE	VOLUME
F	2/28	25.30	48352	F	2/ 7	25.55	60745	F	1/17	25.56	20332
T	2/27	25.33	17146	T	2/ 6	25.55	108812	T	1/16	H 25.60	63108
W	2/26	L 25.27	183773	W	2/ 5	25.55	14361	W	1/15	25.56	22202
T	2/25	25.28	150145	T	2/ 4	25.56	49317	T	1/14	25.55	28016
M	2/24	25.3601	47774	M	2/ 3	25.51	41103	M	1/13	25.57	25033
F	2/21	25.44	97713	F	1/31	25.55	197164	F	1/10	25.54	15161
T	2/20	25.45	108810	T	1/30	25.56	44312	T	1/ 9	25.52	23054
W	2/19	25.53	29844	W	1/29	25.53	13190	W	1/ 8	25.50	56531
T	2/18	25.56	61569	T	1/28	25.556	29668	T	1/ 7	25.53	24445
M	2/17			M	1/27	25.55	119129	M	1/ 6	25.50	26426
F	2/14	25.56	30353	F	1/24	25.51	66886	F	1/ 3	25.49	29568
T	2/13	25.54	31376	T	1/23	25.53	32365	T	1/ 2	25.53	104572
W	2/12	25.56	24895	W	1/22	25.57	22790				
T	2/11	25.55	36909	T	1/21	25.55	99766				
M	2/10	25.58	40826	M	1/20						

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The average trading volume of the WisdomTree Chinese Yuan Strategy Fund (CYB), 1/2/2014–2/28/2014. Source: Bloomberg.

The average daily volume of an ETF can be irrelevant as long as the underlying securities in the ETF have sufficient liquidity. CYB invests in Chinese yuan (CNY) forwards, Chinese yuan in Hong Kong (CNH) forwards and CNH time deposits—all of which are extremely liquid instruments that help CYB achieve its stated exposure. The client's execution is shown below.

WISDOMTREE®

Source: Bloomberg, as of 3/3/14.

The market at the time was 25.25 ([bid](bid)) – 25.29 ([ask](ask)) and the client was able to sell the entire block—all 277,375 shares—in one piece on the bid at 25.25. The client traded substantially more shares than the average daily volume for the previous two months. If the underlying securities are accessible and liquid, then that liquidity can easily translate to instantaneous ETF liquidity. This exemplifies the power of the ETF structure, since the client was able to trade almost 400% of the [average daily volume (ADV)](average-daily-volume) in one trade. When we structure and launch our ETFs, we keep close watch on liquidity in the underlying markets that can directly affect the liquidity available in the ETF. The strength of the ETF structure is that it makes average daily volume essentially irrelevant, as long as investors have access to liquidity providers or traders that can transfer the liquidity in the underlying markets into the ETF.

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DEFINITIONS

Liquidity : The degree to which an asset or security can be bought or sold in the market without affecting the asset’s price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid asset.

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Market maker : Someone who quotes a buy and a sell price in a financial instrument.

Liquidity providers : Traders that facilitate the trading of ETF shares by conducting the transference of liquidity between the underlying basket shares and the ETF.

Block liquidity : The degree to which an asset or security can be bought or sold in large size the market without affecting the asset’s price.

Block ETF market : The block ETF market is when a broker dealer, market maker, or liquidity provider can give the client one “block” price to buy or sell an ETF.

Notional : The dollar value of the derivative contract.

CNY forward : An agreement to buy or sell a specific currency at a future date at an agreed upon rate. CNY denotes Chinese Yuan Forward.

CNH forward : An agreement to buy or sell a specific currency at a future date at an agreed upon rate. CNH denotes Chinese Yuan circulated offshore in Hong Kong.

CNH time deposit : Offshore Chinese Yuan deposited with a bank for a defined period of time.

Market : A bid and an offer on a particular ETF.

Bid Price : The price that a someone will buy an ET.

Ask Price : The price that someone will sell an ETF.

Average daily volume : Average dollar amount traded over the course of a single trading day.