Primary Market Liquidity Vs. Secondary Market Liquidity

When thinking about Exchange Traded Funds (ETFs), it is important to remember that there are two different types of liquidity that exist in ETFs: Primary market (issuance) and Secondary market (stock exchange). Having a firm understanding of the differences between these two sources of liquidity will help investors increase their understanding of the mechanics of the ETF structure.

When an ETF is first launched, it is unlikely to have immediate secondary market liquidity. There is likely to be a lead market maker on screen making markets with decent size, but it is unlikely there will be many market participants on day one of trading. As the product begins to trade and as client interest increases, more and more market participants will get involved in the product and secondary market liquidity will grow. While all ETFs can be held for prolonged periods or intraday, some ETFs experience more secondary market trading than others. At WisdomTree, we structure all our ETFs with liquidity screens to help provide sufficient implied liquidity (underlying liquidity), so even if the ETF has a low average daily volume in ETF terms, that does not mean the ETF is illiquid.

We have heard it over and over: *Exchange-traded funds (ETFs) are wrappers, and the true liquidity of an ETF is derived from its underlying constituents.* While that statement is true, it does not completely explain the different types of liquidity that can exist in an ETF. ETFs trade on the secondary market (stock exchange) but are created and redeemed on the primary market (issuance). There is still a bit of confusion over the difference between these two markets, how they interact with each other and how investors can access liquidity via either market.

Different types of ETFs can serve different purposes as exchange-traded vehicles, depending on the exposure they provide. Some ETFs are used primarily for hedging and intraday portfolio trading. These ETFs typically track major world benchmark indexes, and they trade millions of shares per day. Other ETFs are structured more as investment vehicles and don't typically have very high average daily volumes. Investors come into the products, hold their positions and eventually unwind the investment months or years down the road.

It is important to remember that ETFs have a unique structure. ETFs are wrappers for the underlying investments. Investors are not used to having this type of transparency in their investments. Because the ETF's components are transparent, the securities that actually define the value of the ETF will help investors understand how the ETF may act on the secondary market. In most other investment products, investors rarely ever see real-time pricing of the investment. They typically see either a daily, monthly or quarterly NAV, and they do not have to worry about the real-time pricing of the investment on a daily basis. It is important to remember that broad capital market weakness is broad capital market weakness - ETFs are not somehow immune to that. They are a wrapper that is priced via real-time calculations (if the basket is open) or via fair value models (expectations). The wrapper price is based on the underlying investments, the ability to hedge, the cost involved in the hedge, and the costs to create/redeem. Broad, systemic weakness affects all products and structures. Understanding the primary market function can help investors understand how the ETF will behave on the secondary market during normal times, and how it may behave during times of severe market stress.

Execution Help

If you would like to discuss any aspect of the primary or secondary markets for Boost ETPs, please contact the team at capital.markets@boostetp.com, or +44 203 824 6020.

About us

BOOST ETP**, a WisdomTree Company,** is an award winning Exchange Traded Products ETP provider and one of few providers of specialised ETPs in the European market, and is the first to focus on Short and Leveraged ETPs. BOOST's offering targets sophisticated investors including day traders, stock brokers, wealth managers, high frequency traders and institutional investment managers.

WisdomTree Investments, Inc. is a New York-based exchange-traded fund ("ETF") sponsor and asset manager. WisdomTree offers ETFs across Equities, Fixed Income, Currency Income and Alternatives asset classes, and is currently the world's sixth largest ETF issuer. To learn more about parent company WisdomTree Investments, Inc., visit the Investor Relations (http://ir.wisdomtree.com/) website.

BOOST ETP's key features include:

- **Independence** - **BOOST** is independent from any investment bank, swap provider, market maker, trustee or custodian
- **Best of breed** – **BOOST's** founders have over 25 years of experience in the ETP market. With this experience, plus the wealth of experience provided by **BOOST's** world class service providers, investors are able to enjoy efficient products with liquidity, strong counterparty risk management and relatively low costs
- **Transparency** – **BOOST** discloses all fees, collateral holdings and details on its website each day
- **Innovative and nimble** - **BOOST** aims to be a leader in innovation, as evidenced by the ETPs issued, and the product development and market research behind the products
- **Focused and specialised** - **BOOST's** strategy differs from the existing ETP issuers by not focusing on being everything to everyone
- **Educational** - **BOOST** focuses on providing all the educational and thought leadership tools needed by investors

BOOST ETP is well positioned to bring something new to the European market at both the ETP product range and investor service levels. The company brings a fresh, investor centric approach to all aspects to its operations including sales, marketing, research, and product development.

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