

Optimizing ETF trading in a multi-custodian world

Step-out strategies to enhance trade execution

When the trade execution of your exchange-traded funds (ETFs) isn't optimized, it can quietly chip away at performance. In today's competitive market, every basis point matters—especially when executing across multiple custodians. **Step-out trading** may offer a faster, more consistent execution process that can help improve efficiencies across accounts.

The challenge: fragmented execution across custodians

In the traditional trading workflow, your ETF order is split among custodians—each executing their portion independently. The result? Inconsistencies, delays, and added complexity.

Key drawbacks:

- **Inconsistent pricing.** Executing trades at different prices and times dilute performance.
- **Missed opportunities.** Processing lags can mean losing favorable market moves. Depending on when the orders are sent and executed by each custodian, they could risk competing against their own orders and negatively impact execution.
- **Manual RFQ process.** If market orders aren't used, quotes must be requested (RFQs) from each desk separately, adding time and complexity.
- **Information leakage.** Sequential order handling may reveal information to the street, which can introduce predatory pricing behavior as subsequent custodians initiate orders.

To avoid these frictions, some turn to ultra-liquid ETFs. However, this limits access to most of the ETF landscape, which can include strategies that deliver unique value and better performance.



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The solution: step-out trading

Step-out trading consolidates your full order with a liquidity provider—executed as one block, then allocated post-trade to custodians.

How it works:

- **Block execution.** One large order is placed through a liquidity provider (e.g., WallachBeth), that executes it as one block trade.
- **Post-trade allocation.** Distribute to custodians after execution.



At-a-glance: step-out trading advantages

- **Single execution price.** All accounts receive the same average price.
- **Efficient trading.** Trades are executed faster and with less market impact.
- **Compliance simplification.** One execution, one report—can help streamline documentation and oversight.
- **Greater liquidity access.** Providers may be able to source liquidity more effectively than individual desks.
- **Less order leakage.** Execution is contained and less visible to the broader market.

Step-out with an institutional broker can also provide:

- **Pre-trade analysis** on how and when it is best to trade the block, while using different trading capabilities and specific client benchmarks.
- **Custom execution strategies** based on client discussions and pre-trade analysis.
- **Post-trade/transaction cost analysis (TCA)** adds transparency to the execution quality and provides insight into ways to better optimize portfolio implementation going forward.

Considerations:

Some custodians may charge step-out fees or restrict access. However, these costs are often offset by better pricing and operational gains. Step-out trading is commonly used for rebalances across multiple custodians, larger blocks, or less liquid ETFs where traditional execution may be inefficient.

Why this matters—especially for thinly traded ETFs

Thinly traded ETFs are especially sensitive to fragmented execution. When trade volumes are low and spreads are wide, breaking up orders increases the risk of price movement and order signaling. Step-out trading may help mitigate this by consolidating the order, reducing market disruption, and enabling liquidity providers to work the trade more effectively.

The true liquidity in strategic or niche ETFs is often outside the screen markets. Understanding the liquidity of the underlying holdings and executing them as a block can be a more effective way to establish a position. This approach allows you to include strategic or niche ETFs in portfolios without fearing poor execution outcomes.

Custodial broker-dealer desks vs. third-party liquidity providers

When a client is spread across multiple custodians, a more effective approach is to step out the trade to a single agency broker/liquidity provider, have them work the full order size, and then allocate back to each custodian.

Partnering for smarter execution

ETF trading is no longer just about gaining market exposure; it's about how that exposure is implemented. Those who understand and apply step-out trading can access broader liquidity, reduce slippage, and may offer more consistent outcomes across accounts.

While traditional routing may suffice for simple or highly liquid ETF trades, step-out execution offers a scalable and performance-focused alternative. Having a better understanding of this option ensures you are equipped to make execution decisions that align with investor goals and firm-level efficiencies.

Your Capital Markets Advantage

Our Capital Markets Desk acts as your trading resource—offering insights and connections you need for efficient execution.

- **Trade smarter** — Pre-trade guidance on timing, order type, and market conditions.
- **Access liquidity** — Relationships with multiple market makers to help source liquidity.
- **Educate clients** — Resources to simplify ETF trading and strengthen client conversations.

Execute with confidence

Whether you're navigating a large trade or exploring the right investment structure for your portfolio, we're here to help you trade with confidence.

Capital Markets Desk

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