

# **Comparative Report: Stocks vs ETFs**

## **Cancellations**

A clear distinction emerges between stocks and ETFs in terms of order cancellations. For stocks, the cancel-to-trade ratio is generally lower and more stable over time, which suggests that limit orders are more likely to reach execution. This indicates a relatively steady order flow and greater commitment by investors to their posted quotes. ETFs, in contrast, show a much higher rate of cancellations. This pattern reflects the nature of ETF trading, where market makers and authorized participants continuously update and withdraw quotes as underlying basket values move. The result is a more dynamic and churn-heavy order book.

## **Trading Activity**

Stocks exhibit higher trade counts on average, with noticeable quarter-to-quarter fluctuations. These swings often coincide with earnings announcements, sector-specific developments, or broader market volatility. The trading of individual stocks reflects idiosyncratic events that can temporarily increase activity. For ETFs, trading is more uneven. While most ETFs trade infrequently, a small set of benchmark products—such as those tracking broad indices—account for a disproportionately large share of activity. This concentration of volume makes ETFs appear less active overall, but in practice the liquid subset plays an outsized role in portfolio rebalancing and hedging.

## **Hidden Liquidity**

Another area of contrast is the use of hidden orders. Stocks show a consistently larger share of hidden volume, a sign that institutions actively use iceberg and dark pool mechanisms to reduce market impact when executing large orders. This behavior reflects the sensitivity of individual stock prices to block trades. ETFs, on the other hand, display less hidden activity. When it does appear, hidden liquidity in ETFs is often tied to large block or arbitrage-related transactions. These events are less frequent, but when they occur, they tend to involve substantial sizes given the role of ETFs in cross-market trading strategies.

## **Odd-Lot Activity**

Odd-lot trades—those smaller than the standard round lot—are much more prevalent in stocks. This pattern reflects both the influence of retail investors, who frequently submit smaller orders, and the use of algorithmic strategies that slice institutional orders into odd-lot pieces. ETFs show fewer odd-lot trades by comparison. Since they are frequently used for portfolio adjustments or institutional hedging, trades are often executed in round lots. That said, odd-lot trading in ETFs is not negligible, and still plays a role in maintaining flexibility for smaller investors.

## **Sampling Method**

The current approach of fixing 100 stocks and 100 ETFs from 2012Q1 provides a clean starting point, but it has limitations. Many securities from that cohort may have since delisted, merged, or become illiquid, introducing bias into the results. Moreover, treating all names equally overlooks the fact that some tickers have negligible trading activity while others dominate market turnover. A more representative approach would refresh the sample each quarter. Selections could be weighted by average trading volume, market capitalization, or sector/ETF category, ensuring the analysis reflects the most active and relevant instruments over time. This would provide a more accurate view of evolving trading behavior.

## **Conclusion**

Overall, stocks demonstrate steadier execution and heavier reliance on hidden orders and odd-lot activity, while ETFs are characterized by higher cancellation rates and concentrated liquidity in a few heavily traded products. These differences reflect the fundamental roles of the two asset classes: stocks as vehicles for company-specific investment and ETFs as instruments for diversification, hedging, and tactical positioning. Adjusting the sampling method would reduce bias and improve the robustness of the analysis, making future results more representative of real market dynamics.