

etfRADAR

M A G A Z I N E

Issue No. 4
ISSN 2150-9166

▼ Snapshots

LONELY LISTINGS

▼ Insights&Strategy

THE CASE FOR EMERGING MARKET ETFS

▼ Marketplace

AMERICAS, EUROPE AND ASIA-PACIFIC AT A GLANCE

▼ Coverstory

SIMPLIFYING THE ETF INVESTMENT PROCESS

▼ Ranking

GLOBAL ETF WEBSCAPE

How to navigate through the increasing product jungle?

Maybe you have already cogitated about the problem, how to find the “right” - not to be confused with the “cheapest” - Exchange Traded Fund from the pool of products offered? Meanwhile, private and institutional investors face some difficulties in distinguishing between all the different ETFs - especially if one use index-tracking products to replicate a blue chip index. What is the argument to track a blue chip index by using an ETF of issuer X, instead of investing into an ETF of issuer Z?

One way to understand the strengths and weaknesses between specific Exchange Traded Funds is to use ratings. In our cover story, Mel Herman reports about the key benefits of using ETF ratings and tells investors which things they should gauge when choosing an ETF rating provider. One of the most important conclusions is that a rating should not be confused with a strict performance prediction. It's more an appropriate way to navigate smoothly through the increasing ETF product jungle.

A clear view behind the threads and opportunities of emerging markets and how you can bypass or mitigate these risks accordingly, we provided within our Insights&Strategy section.

Also a more or less dense jungle we explored during our research work for the “Global ETF Webscape”, an unique ranking of the best ETF related websites. We summarized the most useful offers on page 17. I'm sure you will benefit from the mentioned websites and of course from this issue of the ETF Radar Magazine!

Enjoy reading,



Global Publisher

CONTACTS & INFORMATION

The ETF Radar Magazine

NORTH AMERICA

eMail: americas@etf-radar.com

Phone: +1 239 384 6090

Mailing address:

2316 Pine Ridge Road #402

Naples, FL 34109

EUROPE, MIDDLE EAST and ASIA-PACIFIC

eMail: europa.asiapacific@etf-radar.com

Phone: +49 89 28744906

Mailing address:

Postfach 101214

80086 Munich

GLOBAL PUBLISHER

Martin Raab, CAIA

RESEARCH DIRECTOR

Sebastian Stahn

DESIGN DIRECTOR

Cathrine Corbeau

TECHNICAL DIRECTOR

Tobias Stoeger

WEBSITE

www.etf-radar.com

ISSN

2150-9166

SINGLE ISSUE PRICE

12 USD

SUBSCRIPTION

Subscriptions to the magazine are complimentary for qualified readers and 72 USD for others.

COPYRIGHT

No part of this publication may be copied, photocopied or duplicated in any form or by any means without publisher's prior written consent.

THE ETF RADAR MAGAZINE IS A PRIVATE AND INDEPENDENT PUBLICATION.

NO STATEMENT IN THIS ISSUE IS TO BE CONSTRUED AS A RECOMMENDATION TO BUY OR SELL SECURITIES OR TO PROVIDE INVESTMENT ADVICE. PLEASE SEE OUR DISCLAIMER PAGE FOR FURTHER INFORMATION.

© 2009 ETF Radar Magazine. All rights reserved.



The pulp and paper industry as well as the printing industry are the third largest industrial polluters of air, water and land. Hence the ETF Radar Magazine is solely distributed as an electronic publication (PDF).



For all subscription enquiries, thoughts or general questions please contact us directly by email:

magazine@etf-radar.com

Simplifying the ETF Investment Process

In this rapidly-changing and increasingly challenging environment, ETF ratings can help investors clarify the investment process and make better informed investment-related decisions.

BY MEL HERMAN | MARCO POLO XTF | NEW YORK

During the past 15 years, the proliferation of Exchange Traded Funds (ETFs) continues to accelerate with total assets now approaching 1 trillion US Dollars. There are now over 4,500 Exchange Traded Products - including ETFs and Exchange Traded Notes - globally, from more than 90 ETF provider. ETFs track thousands of unique indexes and the investment philosophies can run the gamut from passive management, socially responsible, and recently even active management - or a blend somewhere in-between.

Nowadays Exchange Traded Funds and Exchange Traded Notes provide exposure now to every geographic region and country and every asset-class including equity, currencies, fixed income, real estate, and commodities. Within equity they provide access to nearly every sector and industry. Among these the index compositions can be managed in completely different ways including: Market-cap weighted, price weighted, or weighted according to fundamentals such as historical dividend yield. Amazingly, even with all these options, the market continues to show strong demand for new Exchange Traded Products and the best way to gain insight is to get the best possible information from your wealth manager and utilize the research provided by industry experts.

How can investors distinguish among ETFs?

While ETF innovation was initially US-driven and based on its markets, both US-listed and ex-US Exchange Traded Funds now provide very good global coverage via the ETF constituents. There are ETFs based on indexes with exposure to dozens of countries around the world. Commodity and currency ETFs are global in focus and provide exposure to both the spot and futures market. Currency Exchange Traded Funds give exposure

to 14 of the most important currencies around the world, including those of all four BRIC countries - Brazil, Russia, India and China - whose economies are rising in importance.

One resource that can be useful in simplifying the process and cutting through all the confusion is XTF's ETF ratings. An investor can take advantage of the most comprehensive ETF ratings and research tools available today. XTF's ETF rating methodology is rapidly becoming the industry standard for evaluating Exchange Traded Products.

Utilizing ETF Ratings

ETF ratings can help an investor evaluate an ETF's quantitative and qualitative components. The primary aspects to be analyzed are structural integrity and performance. The structural aspect has to do with expense, how well the Exchange Traded Products

“An ETF rating should not be confused with a performance prediction – unless explicitly advertised as such.”

(ETPs) tracks its index, how liquid it is, and in the US market, how tax efficient. Some of these factors are related to the relative strengths of ETPs over mutual funds: more transparency, lower expense ratios, tighter tracking error, and superior tax efficiency. These factors allow investors to compare an ETP to mutual funds that track the same index. Performance of ETPs also has several possible input metrics that can vary in importance from investor to investor. Predicting ETF performance »

THE KEY BENEFITS OF USING EXCHANGE TRADED FUND RATINGS TO AID INVESTMENT DECISIONS

Benefit	Comment
Assess the structural integrity	Is an ETP expensive? Or, conversely, is it charging enough to cover the risks of the particular market? Is the ETP providing the targeting it is advertising? How much diversification is each ETP providing?
Evaluate the historical performance	Although past performance is not guarantee of future performance, it can be indicative and, at a minimum, should be taken into account.
Comparison of ETPs with mutual funds tracking the same index	ETPs are marketed as alternatives to mutual funds. If you are a mutual fund investor thinking of switching to ETFs, ratings can help you assess the relative merits.
Understand relative strengths and weaknesses between ETPs	For ETPs competing in the same index/market, which one is "better" (e.g. more liquid, more or less targeted, more diversified, more accurately tracking the index)?
Evaluating the underlying holdings of an ETF	A good ratings provider will show the underlying holdings and their weights of each ETF and answer the question, is there additional exposure to derivatives and/or swaps?
Distillation of Information and Expertise	Investors don't always have the time or knowledge to make informed decisions. This is a relatively new market with many players that is quickly changing. Keeping up requires constant effort. Most investors cannot devote sufficient effort to the degree necessary to make the right choices.

Source: Marco Polo XTF | XTF's ETF Ratings, Research Tools and Data can be accessed at www.xtf.com

is as difficult an undertaking as it is for a single equity or bond. An Exchange Traded Fund rating should not be confused with a performance prediction unless explicitly advertised as such. Ratings should be used as guides not crystal balls.

The structural and performance factors should be used by investors to compare and distinguish between ETPs. The challenges to those creating ratings are to provide this information for the investor on a level playing field and to help make fair comparisons among all Exchange Traded Products. It must also distinguish among different investment outlooks; investors have different risk tolerance, needs, desires, outlooks and time horizons.

“Investors should insist that the components of the ratings be explicitly tabulated – not just the end result.”

Ratings providers must use their knowledge of the ETF markets and finance in association with historical data to guide the general investor as well as the professional money manager. As in anything else, there is a tradeoff between being too specific to maintain relevance and being a jack of all trades but a master of none.

Using ETF ratings allows the investor to make more informed investment related decisions. The degree to which ratings providers gain your trust will determine whether or not they survive in the competitive Exchange Traded Funds marketplace.

What to watch out for when choosing an ETF Ratings Provider

There are five main features to gauge when choosing an ETF Ratings provider:

- Ratings methodology,
- Coverage,
- Transparency,
- Provider independence
- Powerful, user-friendly tools

Choose a provider with a methodology that is as quantitative and detailed as possible and whose ratings are not limited to a certain region or market segment. Many raters give a number or a more qualitative rating without explaining anything about what inputs were used. Insist that the components of the ratings be explicitly tabulated not just the end result. Stay away from firms that have a profit incentive to rate certain ETFs higher than others. Finally, look at the support tools the rater provides. Some will be too simple to be useful or provide too many insignificant options. You want tools that can help you quickly narrow your focus and answer relevant questions giving you the results you require without distraction.

Start Using ETF Ratings

In conclusion, the Exchange Traded Products market has shown significant innovation and growth over the past decade and will continue to expand into the foreseeable future. Many new ETFs are due to come on-line as of this writing while net flows of funds into ETFs continue to increase despite the market turbulence during the past 12 months. In this rapidly-changing and increasingly challenging environment, providers like XTF ratings can help investors clarify the investment process and make better informed investment-related decisions. ■