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**Gold/CPI Ratio No Sure Thing**

By Dave Nadig | July 07, 2014

There’s a blog post from Mark Hulbert making the rounds that suggests gold should be fairly priced at $800. A key part of the argument, quoting gold-Svenagli Campbell Harvey, is that the reactive peg for gold should be interest-rated, not inflation. Here’s the money quote:

“That model is based on the tendency for gold to decline whenever the ratio of its price to the consumer-price index rises well above its average level of about 3.4, and to rise when it is significantly below that average. With the CPI now at 237.1, this ratio stands at 5.6.”

Notice a few problems with this chart?

Since CPI is a relatively stable number, all the “ratio” is really showing you is whether gold’s been on a tear. Since gold’s been on a tear this last little while, the ratio is up.

Gold seemed to decline just fine in the late ’80s and ’90s without the ratio being anywhere near the magical target of 5.6.

Since most rational expectations of inflation are for slow and steady, all this means is that gold shouldn’t grow faster than 2-3 percent a year.

What’s the moral of the story here? Never forget that gold is first and foremost a psychological investment. Since it has little utility and pays no interest, it’s worth exactly what the mad-crowd of the market think it’s worth—no more, no less. Anyone who tells you they’ve got a formula for predicting gold prices might as well be offering you magic beans for your family cow.

**Asian Equities Soar Despite Civil Unrest**

By Spencer Bogart | July 07, 2014

Related ETFs: EWH | THD | VNM

Hong Kong, Thailand and Vietnam have each had their fair share of civil unrest lately—but their equity markets haven’t taken notice.

Oddly, the best-performing equity market comes from the country with arguably the biggest problem: Amid a military coup, the iShares MSCI Thailand Capped ETF (THD | B-96), a proxy for Thai equities, has returned more than 17 percent YTD. The market was surging before and after the coup.

Vietnam has also had its share of unrest after China established an oil rig in disputed waters claimed by Vietnam. The peaceful protests turned ugly as riots ensued and local manufacturing centers owned by Chinese firms burned to the ground. Still, the Market Vectors Vietnam ETF (VNM | C-34) has returned
more than 11 percent YTD.

Meanwhile, Hong Kong is the most recent country experiencing civil unrest, as hundreds of thousands of protesters marched through the city demanding greater democracy and autonomy from mainland China. The protests have been like water off a duck’s back for Hong Kong equities, as the "shares MSCI Hong Kong ETF (EWH | B-65) jumped more than 1.5 percent during and immediately following the protests.

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**An Expensive Mistake: Confusing These Oil ETFs**

By Spencer Bogart | July 07, 2014

Related ETFs: **USO | BNO**

An oil ETF is an oil ETF, right? Wrong. ETFs that attempt to track the price of oil must make a range of decisions.

One of the most important decisions to be made is which benchmark to use for oil prices. Around the world, crude oil trades at slightly different prices depending on local supply/demand factors as well as import/export restrictions.

The United States most commonly uses the West Texas Intermediate as its benchmark, as that’s the type of oil most commonly consumed and produced in America. In contrast, much of the rest of the world uses Brent oil as the benchmark for oil prices and typically comes from the North Sea.

Is there really a difference? Well, the **United States Oil ETF (USO | A-100)** has returned more than 8 percent this year, while the **United Stated Brent Oil ETF (BNO | N/A-64)** has barely broken even.

A good place to start assessing the differences between oil ETFs is our **Crude Oil Segment Report**, which breaks down the differences between crude oil ETFs.

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**Which China For Goldman-Called Rally?**

By Dave Nadig | July 03, 2014

Related ETFs: **PGJ | GXC | ASHR | CN**

Most major economists are sticking by 2013 calls for a rally in China. Bloomberg reports today that Goldman, Morgan Stanley, Citigroup and J.P. Morgan Asset Management are all sticking by bullish —if tempered—calls for a continued rally in Chinese equities for the rest of 2014.

But if China’s going to rally, which China?

As you can see, depending on your choice of weapon, a call to get into China in the second quarter was either genius or simply “meh.” What’s the difference?

* The **db X-trackers Harvest CSI 300 China A-Shares (ASHR | D-51)** was the first A-share ETF to launch last year—meaning it directly owns mainland Chinese equities. That’s turned out to be the sucker’s bet this year, as its heavy focus on state-owned financials hasn’t panned out.

* The newly launched **db X-trackers Harvest MSCI All China Equity (CN | N/A)** is the only ETF to provide access to all share classes of Chinese stocks—mainland china, Hong Kong-listed and New York listed. That’s fared slightly better.

* The incredibly popular **SPDR S&P China ETF (GXC | B-41)** owns everything but the A-shares, and has rallied more than 10 percent in just two months. Big positions in tech and energy have worked out.

* The **PowerShares Golden Dragon China ETF (PGJ | A-22)** is all the way at the other end of the spectrum, holding only the U.S.-listed (generally tech and consumer) companies. It’s been the
consistent outperformer for the past five years, but is arguably the least representative way to really buy China.

The moral of the store here is simple—don’t just buy a theme—do some homework and decide which version of the call you’re following.

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### Missing The Copper Rally?

By Dave Nadig | July 02, 2014

Related ETFs: JJC | COPX

A few important things to consider:

- March represented the four-year low for the red metal, mostly due to slower expected growth from China. That low was set when China reported a surge in copper demand in April.
- A series of reports have highlighted growing costs for copper miners and a decided lack of new entrants, buoying the prices of entrenched miners like PanAust Ltd (PNA), which may be acquisition targets for larger integrated miners.
- Inventories at critical London Metals Exchange warehouses are at six year lows, leading to actual supply deficits in June.

All of this points to the classic case for a commodity rally: constrained supplies, increasing demand, in a generally positive global economy. ETF investors have good reason to be cautious, however. While the iPath Dow Jones-UBS Copper Total Return ETN (JJC | B-77) has been highly tradable for years, the Global X Copper Miners ETF (COPX | D-99) can trade at wide spreads on thin volume, despite the recent rally in its underlying holdings.

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### Argentina’s White-Hot Equity Market

By Spencer Bogart | July 02, 2014

Related ETFs: ARGT | EEM | FM

Despite being on the cusp of default, Argentina’s equity market is absolutely surging. The lone ETF targeting the Argentine equity market, the Global X FTSE Argentina 20 ETF (ARGT | D-24), has returned more than 13 percent over the past quarter.

ARGT’s streak propels the returns on broader funds such as the iShares MSCI Emerging Markets ETF (EEM | B-99), a proxy for emerging markets, and the iShares MSCI Frontier 100 ETF (FM | C-80), a proxy for frontier markets, which returned 7 percent and 6 percent, respectively. Argentina is classified as a frontier market.

While ARGHT’s recent returns have been impressive, investors would have done even better if there were a currency-hedged ETF available: The Argentine stock market is actually up about 29 percent over the past three months, but a sagging Argentine peso has detracted from returns.

ARGT tracks an index of 20 ADRs that “directly participate in the Argentine economy.”

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### Emerging Market Debt Winning In 2014

By Spencer Bogart | July 02, 2014

Related ETFs: IGOV | EMB
Despite much speculation and commentary that the trade was overcrowded heading into 2014, emerging market debt has vastly outperformed its developed-market counterparts so far this year.

Investors fervently hunting for yield have pounced into emerging market debt this year. One ETF alone, the iShares J.P. Morgan USD Emerging Markets Bond Fund (EMB | B-96), has gained nearly $1.5 billion since the start of 2014.

The impressive performance comes despite a large increase in supply; a recent Reuters article notes that two-thirds of 2014’s projected emerging market debt issuance has already come online.

EMB’s performance has even outstripped the strong showing from developed-market debt as seen by the iShares International Treasury Bond ETF (GOV | B-76), which has returned more than 6 percent so far this year. Both funds own sovereign debt.

With sovereign borrowing rates still at or below recent lows, calls for rising rates throughout 2014 were certainly premature and emerging market countries are among those benefiting most.

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**Automaker ETF Beating S&P500? Seriously?**

By Dave Nadig | July 01, 2014

Related ETFs: CARZ

How is it possible that this beleaguered segment of the market can possibly be doing better than the broader market? After all, the news in the auto space continues to be ugly.

- Ford (F) just reported that unit sales are down 5.8 percent. That sounds like bad news, but sentiment on automakers is so terrible, that’s actual almost a 1 percent beat on analyst expectations.

- While General Motors (GM) has had a nearly comical level of recalls and not-funny-at-all issues of endangering its customers, analysts expect the actual impact on the firm’s bottom line (in terms of compensation to victims) to be quite small.

- Sales at GM remain surprisingly strong, despite terrible PR problems.

- The clearest play here, the First Trust Nasdaq Global Auto ETF (CARZ | C-41), holds not just the few shaky-looking U.S. manufacturers, but effectively the entire global industry, which is benefiting from a generally benign global economic outlook and low-cost financing for the indefinite future.

- Just released June auto sales numbers show broad support.

It’s often easy to get overwhelmed by stock-specific headlines. Here’s one case where keeping the big picture in mind is incredibly important.

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**Why DXJ Has The Japan Crown Back**

By Dave Nadig | July 01, 2014

Related ETFs: DXJ | DBJP

The trade of 2013 was the “Japan without the yen” trade popularized by the WisdomTree Japan Hedged Equity ETF (DXJ | B-81). What most folks didn’t realize is that they bought the wrong fund: the db X-trackers MSCI Japan Hedged Equity ETF (DBJP | B-87) beat the pants off it last year to the tune of more than 11 percent.

Now the situation’s reversed, with DXJ leading by more than 2 percent year-to-date. So what’s the story?
• DXJ explicitly bets on exporters, to the extent it completely excludes nonexporting companies from its index. Exporters weren’t a big part of the recovery story in Japan last year.

• Manufacturing and export data from Japan are starting to turn around, and while Japan has still been a blown trade for 2014, you’ve been better off in the skewed, export-heavy mix of stocks favored by DXJ over the MSCI-baseline set by DBJP.

• If consensus is right, and global trade is where the next leg up in Japan comes, DXJ may bet the smarter, quicker wager.

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**Why Silver’s The Hottest Trade In The Market**

By Dave Nadig | July 01, 2014

**Related ETFs**: SIJ | SLVP | SILJ

A quick look at last month’s winners and losers yields an unlikely trio of crazy high fliers: silver miners.

The hottest of the bunch, the PureFunds ISE Junior Silver (Small Cap Miners/Explorers) (SILJ | F-20), is up more than 30 percent just in the month of June, pushing its six-month year-to-date performance more than 48 percent. It’s been trailed closely by the Global X Silver Miners (SILJ | B-74) and iShares MSCI Global Silver Miners (SLVP | D-59) ETFs.

What’s going on here?

• The price of silver has been rising twice as fast as the price of gold. In June alone, silver rose about 10 percent to $21.03 an ounce. Gold, by contrast, rose just more than 5 percent.

• Silver is rallying from both safe-haven demand in the wake of continued Middle-East turmoil, and because it’s actually a useful, functional industrial metal that should see increased demand in an improving economy.

• Investors seem to have shrugged off the collapse of the London Silver Fix, and the ETFs themselves seem to be the best real-time indicator of fair value on the metal. Miners provide an indirect—and riskier—way to access silver’s long-term prospects.

A word of caution, however—the winner here, SILJ, isn’t particularly liquid, and often trades at significant premiums or discounts, and invests in the riskiest edge of the silver miner market—small-and midcaps.

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**3 Hottest Sector ETFs YTD**

By Spencer Bogart | June 20, 2014

**Related ETFs**: FCG | IEO | SOXX

Three sector ETFs have taken the performance lead in 2014:

• The First Trust ISE-Redeve Natural Gas ETF (FCG | A-99) is up 40 percent since the turn of the year.

• The iShares U.S. Oil & Gas Exploration and Production ETF (IEO | A-73) is up nearly 31 percent in 2014.

• The iShares PHLX Semiconductor ETF (SOXX | A-73) is up nearly 34 percent since the start of 2014.
While all three have been phenomenal in the first half of the year, they’re now riding on stretched valuations that might suggest a turnaround is near. FCG, for example, is the lowest of the bunch, as it trades with a price-earnings ratio north of 35—towering over the S&P 500’s P/E of 19. IEO and SOXX aren’t too far behind either, as they trade with P/E of 26 and 24, respectively.

Only time will tell if these funds can continue to rally through the rest of the year.

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### Run-up For UK Equities Not Necessarily Over

By Spencer Bogart | June 19, 2014

Related ETFs: **EWU**

Global monetary policy is in different gears: The Federal Reserve is tightening, the European Central Bank is easing and the Bank of England is getting ready to tighten.

This week, the Bank of England released the minutes from its latest policy meeting. The minutes show that the decision to hold interest rates steady was a unanimous 9-0 vote. Intriguingly though, voting members indicated that markets may be underestimating the need to raise rates sooner rather than later, with some members seeing the first increases coming in the next six months.

Traditionally, easing monetary policy is bullish for equities and tightening is bearish. This has led to speculation that strong returns from U.K. equities (up 19 percent in the last 12 months) may be coming to an end.

However, historical data tell a different story—that the party is not over. Since 1985, the returns on the FTSE All Share Index (a barometer of U.K. equities) in the trailing three months after the start of a tightening cycle are consistently strong. The 12 initial rate hikes since 1985 have produced a median three-month return of 4.7 percent—suggesting U.K. equities could still have room to run.

To access this theme, consider the iShares MSCI United Kingdom ETF (**EWU**), which offers broad, marketlike exposure to U.K. equities.

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### 3 Country ETFs Punished In June

By Spencer Bogart | June 18, 2014

Broadly speaking, emerging markets have had a great month so far: In the first two and a half weeks of June, the iShares MSCI Emerging Markets ETF (**EEM**), is up more than 2 percent, while ETFs focused on Thailand, Brazil, India and even Russia are up more than 4 percent apiece.

But not all country ETFs have fared so well.

The iShares MSCI Indonesia ETF (**EIDO**) is down more than 2 percent amid uncertain elections that could produce a more closed, protectionist government.

The iShares MSCI Turkey ETF (**TUR**) is down more than 3 percent as civil wars rage to its immediate north (Ukraine) and south (Iraq). Iraq was Turkey’s second-largest export destination in 2013, and further Iraqi instability could dampen Turkish export markets in the second half of 2014.
Meanwhile, the iShares MSCI Chile Capped ETF (ECH | C-99) is down more than 3.5 percent as growth stalls and inflation accelerates—a difficult dilemma for the Chilean Central Bank.

These countries and funds may recover and rebound, or they may flounder and fall in the second half of the month. Either way, with a volatile start to June, they’re certainly markets to keep an eye on.

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**High Hopes, Low Volatility And Gold ETFs**

By Spencer Bogart | June 17, 2014

Related ETFs: **IAU**

Five years of rising equity prices may have lulled markets into a sense of complacency and detracted from returns on safe-haven assets such as gold. Declining volatility (currently just off all-time lows) has likely contributed to investor confidence—which is significantly higher than it has been for most of the past five years. Whether through quantitative easing or negative interest rates, hopes are high that central banks have figured the formula for fixing global financial markets.

After five years of high returns and low volatility, it’s understandable that investors feel comfortable in equity markets, and it’s not surprising to see gold prices near four-year lows.

Still, Iraq and Ukraine face uncertain futures, saber rattling is regular in Asia-Pacific, and we’re still in the middle of the world’s biggest monetary experiment. Should those risks escalate or new ones emerge, the tides could turn toward gold and other safe-haven assets.

At ETF.com, our Analyst Pick for gold exposure is the iShares Gold Trust (IAU | A-100). For 25 bps, IAU investors get liquid access to physical gold bars stored in vaults around the world.

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**Keep An Eye On Turkey ETF**

By Spencer Bogart | June 13, 2014

Related ETFs: **TUR**

While still unlikely, concerns regarding Turkey’s potential involvement in regional conflicts are mounting. Turkey shares a border with Iraq—a country teetering on the brink of civil war. Bloomberg reports that the Al-Qaeda spinoff, ISIS, kidnapped Turkish diplomats stationed at the consulate in Mosul amid the group’s seizure of key Iraqi regions.

It may sound far-fetched for Turkey to be affected by these regional conflicts, but financial markets are already disagreeing. On Wednesday, the Turkish lira had its single largest decline in five months. Yields on Turkish bonds have crept up and CDS rates are rising as well.

This conflict may come and go without affecting Turkey further but, then again, it might not. After all, Iraq is Turkey’s second-largest export market, and further instability may restrict supply and demand in the embattled country.

Regardless, the ETF to keep an eye on here is the iShares MSCI Turkey ETF (TUR | B-99) which is up more than 40 percent since February lows. Despite recent performance, TUR’s 11.09 P/E is still only a fraction of the richer valuations seen in some emerging markets. TUR holds a market-cap-weighted index of more than 80 Turkish companies and comes with heavy exposure to financials and consumer cyclicals.
Bond ETFs For Rising Interest Rates

By Spencer Bogart | June 12, 2014

Investors must bear risk to gain reward. In the bond market, these risks are largely summarized by interest-rate risk and credit risk. The more investors hold of each, the more likely they are to earn higher returns. However, the prospect of rising interest rates has scared investors away from duration and toward the short end of the yield curve—where the negative effects of rising rates are minimized.

Fortunately, ETF product innovation took a crucial step last year when we saw the first duration-hedged ETFs come to market. These ETFs take long positions in corporate bonds (credit risk and interest-rate related ETFs: THYI | HYIG | IGSH | HYZD | AGZD | AGND | HYND | LGQD | HYGH) and overlay a short position of U.S. Treasuries (interest-rate risk only). Investors are left with near-pure credit exposure. The result is that investors can maintain their fixed-income exposure without worrying about rising rates.

In considering these duration-hedged ETFs, there are two main factors to weigh: credit quality and duration. That is, how much credit risk do you want to bear? And how far do you want to hedge duration? The table above helps fit ETFs into their appropriate buckets along those decision lines. Use the links in this list of the funds (ranked by AUM) to evaluate the funds further:

- ProShares High Yield — Interest Rate Hedged ETF (HYGH [C-45])
- ProShares Investment Grade — Interest Rate Hedged ETF (IGSH)
- Market Vectors Treasury-Hedged High Yield Bond ETF (THYI [F-47])
- iShares Interest Rate Hedged High Yield Bond ETF (HYGH)
- iShares Interest Rated Hedged Corporate Bond ETF (LGQD)
- WisdomTree BoFA Merrill Lynch High Yield Bond Zero Duration (HYZD)
- WisdomTree Barclays U.S. Aggregate Bond Zero Duration ETF (AGZD)
- WisdomTree Barclays U.S. Aggregate Bond Negative Duration ETF (AGND)
- WisdomTree BoFA Merrill Lynch High Yield Bond Negative Duration (HYND)

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Smart-Beta ETFs Vs The S&P 500

By Spencer Bogart | June 11, 2014

http://www.etf.com/sections/etf-market-intel.html
This chart shows the rolling one-year performance differentials between four “smart beta” strategies and the S&P 500. Whenever a strategy is above 0 percent, it is outperforming the S&P 500 over the past year; conversely, a value below the line indicates that the strategy has underperformed the S&P 500.

Four Takeaways:

1. Frequent underperformance: Over many one-year periods, these strategies underperform the S&P 500.
2. Occasional but significant outperformance: Over brief bursts, these strategies greatly outperform the S&P 500.
3. Every dog has its day: Each strategy shines at different times.
4. Who’s next? Since January 2011, the S&P 500 has been very hard to beat on a one-year basis. Will any of these strategies prevail in the second half of 2014?

Fund Information:

- Value: The iShares Russell 1000 Value ETF (IWD) screens the Russell 1000 for companies with lower P/B ratios and lower forecasted growth rates.
- Growth: The iShares Russell 1000 Growth ETF (IWF) filters for companies with higher P/B ratios and higher forecasted growth.
- Dividends: The Vanguard Dividend Appreciation ETF (VIG) screens for companies that have a long history of increasing dividends.
- Momentum: The PowerShares DWA Momentum ETF (PDP) uses price performance to filter for companies that display “relative strength” indicators.

2 Equity ETFs For Energy Investing

By Spencer Bogart | June 10, 2014

Today the Wall Street Journal and other sources are reporting that militants have taken control of a key petroleum-producing region of Iraq—threatening supply disruptions. Monday the International Energy Agency projected a doubling of Chinese natural gas demand in coming years. Meanwhile, Gazprom continues to threaten supply restrictions to Ukraine and Western Europe.

Aside from demand projections and supply disruptions, energy is a basic requirement for economic growth and, consequently, an important investment theme. Fortunately, two ETFs make it easy to harness the energy investment theme.

The iShares Global Energy ETF (IJC | A+9) tracks a market-cap-weighted index of global energy companies. Investors get access to the big names like Exxon, Royal Dutch Shell and Chevron, but also smaller companies like Cairn Energy—a European oil and gas exploration and development company.

For a more targeted focus, investors might consider the First Trust ISE-Revere Natural Gas ETF (FCG | A+9). FCG tracks an equal-weighted index of U.S. companies that derive a substantial portion of revenues from the exploration and production of natural gas.

Are Retailers Signaling Recovery's End?
Walmart, widely considered a bellwether stock for the entire retail industry, disappointed investors last week by reporting a 3.5 percent drop in quarterly profits compared with last year. The company is the biggest holding in the Market Vectors Retail ETF (RTH | IBB), with an allocation of more than 11 percent.

Retailers’ profitability is driven by consumer sentiment, which itself is closely linked to employment. Because employment is a lagging indicator of economic growth, the retail industry tends to underperform other industries in the first half of the business cycle and outperform in the latter part.

After a recession consumers remain cautious in their spending, keeping a tight lid on retail profits. As unemployment slowly recedes, consumer confidence and spending return, lifting the industry’s fortunes once again. In the late stages of the business cycle, retailers also regain pricing power, which they use to further boost margins and profits.

The current drop in Walmart’s earnings was blamed on the weather. Time will show if this was really a temporary hiccup or a sign of trouble ahead. But for now, the question of whether the second half of the recovery is coming to an end is in focus.

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ETF Flows Show $6B Targeted Bet On Treasurys

By Scott Burley | May 22, 2014

Flows data from May show that investors are taking big bets on intermediate Treasurys. The iShares 7-10 Year Treasury Bond ETF (IEF | IEF) has seen a huge influx of capital so far in May, more than doubling its AUM from $4.5 billion to $9.7 billion in just three weeks.

Similarly, the ProShares Ultra 7-10 Year Treasury ETF (UST), a 2x leveraged take on the same Barclays index, increased its AUM from $29 million to $612 million in that time.

That’s a total of $6 billion of inflows into those two ETFs, which is about 17 percent of all the assets invested in ultra-deep U.S. Treasury ETFs. IEF’s inflows alone account for more than 65 percent of all bond ETF flows for the month.

Is this a new trend, or the work of one big investor? We can’t know for sure, but most of the inflows to IEF happened in two big chunks: about one-third on May 1, and the rest on May 20. Meanwhile, investment-grade corporate bond funds of similar maturity have seen only modest inflows, suggesting the investor(s) are explicitly focused on the exposure this one index delivers—not just any investment-grade debt.

Whoever made this call has been right so far: The 10-year Treasury rate is down from 2.67 to 2.52 percent, while IEF is up 1.5 percent since April. Remember though: The second leg of flows only came on Tuesday. Will there be another rally in intermediate Treasurys?