

The Individual Investor's Guide to Exchange-Traded Funds: 2009

By Maria Crawford Scott and Cara Scatizzi

The dramatic growth in exchange-traded funds (ETFs) has come to an abrupt halt, although the fund industry did experience some growth over the last year.

Total assets have increased to \$640 billion as of July 31, up 9.8% from last year's \$582 billion (excluding HOLDRS), according to the Investment Company Institute, an investment company trade organization. The assets include \$258 billion in broad-based U.S. stock ETFs, \$128 billion in U.S. sector stock ETFs, \$166 billion in global and foreign stock ETFs, and \$87 billion in bond ETFs.

Not surprisingly, most of the growth has occurred in the bond category, which saw an 85% increase in total assets over the course of a year. Broad-based stock ETFs actually saw a slight decrease in assets.

This year, AAI tracked over 750 exchange-traded funds (ETFs), including 104 new funds that started trading within the last year. However, for the first time since AAI started tracking ETFs, there were a significant number—58—that have closed.

Because of the large number of ETFs that now have long-term track records, this year's printed version of the Guide to ETFs includes only ETFs that have over \$100 million in net assets and have been in existence for over one year. We have also excluded leveraged and inverse ETFs from the printed version, since they are primarily designed for day traders. All funds, however, are included in the on-line version of this article, available at AAI.com in the AAI Guides area.



The Basics

Exchange-traded funds are portfolios of securities that are usually passively managed and that track an index, offering an alternative to traditional index mutual funds. Although they are similar to traditional mutual funds in that they consist of a

portfolio of securities, ETFs are listed on an exchange and trade just like an individual stock. This provides them with trading flexibility that does not exist with traditional index funds.

The concept is not new. The first exchange-traded fund, the S&P 500-tracking SPDRs ("Spiders," ticker symbol SPY), was introduced in 1993 and was an immediate hit.

ETFs: The Next Generation

The most notable development this year has been the continued introduction of a small number of ETFs that don't track an index at all, but rather offer actively managed portfolios.

These funds have not attracted much investor interest, and whether this approach will catch on in any big way with investors is still an open question. But the doors have already been opened, and several more actively managed ETFs are on their way.

A large number of this year's new offerings are an expansion of ETFs with leverage—these ETFs provide investors with magnified exposure or magnified short exposure to various indexes.

However, the performance of these ETFs is highly complex, with most designed for day traders rather than long-term investors. This has prompted concern from the Securities and Exchange Commission (SEC) that many investors do not understand the tracking nature of these funds.

Most leveraged and inverse ETFs are designed to achieve their stated objectives on a daily basis. However, this can result in performance over longer periods of time that differs significantly from the performance (or inverse of the performance) of the underlying index over that same period of time—an effect that can be magnified in volatile markets. (For more on this, see this issue's Briefly Noted article on page 2.)

This printed version of AAI's Guide to ETFs does not include leveraged funds, but they do appear in the on-line version of the article.

This year's new ETF offerings also continue the trend toward covering every conceivable market niche—and then some.

Here is an overview of a couple of the more unusual new ETF types. Keep in mind, however, that while they may sound intriguing, many have yet to attract real investor interest, and have little or no trading volume.

In this year's guide, new ETFs are listed in the on-line version of the table, but not in the printed version.

Actively Managed ETFs

Actively managed ETFs have been widely anticipated for several years, as the first wave of applications awaited SEC approval.

Promoted as “the next generation of ETF,” they are supposed to bring to actively managed portfolios several of the advantages that index-based ETFs have over their mutual fund counterparts: more tax efficiency, trading flexibility and lower costs.

In addition, the funds' portfolios must be designed to be transparent—this is, disclosed and readily available to the public so that market makers and traders can constantly know what's in the portfolio. The theory is that this

transparency will keep the ETF share price trading close to the fund's net asset value (NAV) per share, eliminating (or keeping to a minimum) any premiums or discounts to NAV, a problem that plagues their cousins, the closed-end funds. Whether this theory will hold in the real world remains to be seen, since these kinds of funds have only recently started trading.

The Grail American Beacon Large Cap Value ETF is sponsored by Grail Advisors and is billed as the first ETF to use “traditional active management.” To date, other ETFs that are described as “active” typically use rules-based quantitative analysis to select securities and determine weightings to “enhance” a market index. In contrast, the Grail fund allows its portfolio managers unrestricted selection of securities.

Grail Advisors serves as the fund's manager, and is sub-advised by American Beacon Advisors. Assets in the new ETF will be allocated among three noted investment managers: Brandywine Global Investment Management, Hotchkis and Wiley Capital Management, and Metropolitan West Capital Management. The fund's expense ratio is 0.79%.

Grail Advisors intends to expand on its series of active exchange-traded funds later this year.

Asset Allocation ETFs

iShares has introduced the S&P Target Date series of ETFs designed to compete with life cycle mutual funds. These funds invest in iShare ETFs that cover a full range of asset classes (international stocks, U.S. stocks, fixed-income securities and real estate). The funds start with different exposures to the various asset categories, and gradually move along an allocation path that changes as the target retirement date approaches to eventually match the target date asset allocation.

Complete Coverage

Currently, ETFs cover almost every equity index imaginable. Fixed-income ETFs include short-, intermediate- and

long-term Treasuries, corporate bonds, TIPS (Treasury inflation-protected securities), municipal bonds and international bonds.

AAI's Guide to ETFs includes a listing of exchange-traded funds, along with information on how they work and where you can get more information on them.

The next segment “What You Need to Know About Exchange-Traded Funds,” describes ETFs in more detail.

The special features of fixed-income ETFs are discussed further in “What You Need to Know About Fixed-Income ETFs,” on page 24.

Our listing of ETFs categorizes each one by the type of index it tracks for easier comparison of similar alternatives.

The printed version of our listing includes all ETFs that have over \$100 million in net assets, and that have existed for over one year. The listing includes recent performance, expense ratios, net asset value and the index tracked.

Leveraged and inverse ETFs are included in the on-line version only. Similarly, HOLDRS, which technically are not really exchange-traded funds, are included in the on-line version of the table under the appropriate sector.

A full listing of on-line resources is available in the Hot Links column on page 27.

The on-line version of AAI's Guide to ETFs lists *all* exchange-traded funds, including those that have under \$100 million in assets, and those that are new. The new funds are listed in the appropriate category. In addition, the on-line version has expanded information on each ETF, including recent trading statistics and the legal structure of the fund.

AAI's on-line ETF Guide also features two portfolio strategy articles: “Building an ETF Portfolio: From the Simple to the Complex” and “The Core Approach to Building an Effective ETF Portfolio.”

The on-line version of the Guide to ETFs can be found in the AAI Guides area at AAI.com. ▲

A Look at the Basics: What You Need to Know About ETFs

Exchange-traded funds (ETFs) offer many of the advantages of a traditional index fund. Because they are composed of a basket of securities that track a particular index, ETFs provide diversification within the sector of the index that they track.

And because ETFs now cover almost every sector of the equity markets, they offer an easy and low-cost way to adjust the asset allocation of any portfolio.

How They Work

An exchange-traded fund is similar to a mutual fund in that it consists of a portfolio of securities. Shares in the ETF represent an ownership interest in the underlying basket of securities held by the fund.

ETFs continuously create new shares or redeem existing shares, depending on market demand. However, the creation and redemption process is limited to institutional investors that qualify as Authorized Participants (APs), who deal with the ETF in large, specified quantities called “creation units” and “redemption units.” Although any given basket of securities may be large, consisting of hundreds of different

individual stocks, the trading of these baskets is instantaneous over the sophisticated electronic trading platforms that exist today.

New ETF shares are created when the AP provides the fund with a specific basket of securities (the holdings in the index the ETF tracks), and the fund in turn transfers a corresponding number of shares (a creation unit) to the AP; those shares are then sold by the AP on the secondary markets. ETF shares sold in the secondary markets trade on an exchange just like a stock. This is the marketplace individual investors go to when purchasing or selling an ETF.

Similarly, ETF shares are redeemed when the AP provides the ETF with a specific number of ETF shares (a redemption unit), and receives from the ETF the corresponding basket of securities.

Who are these APs?

Table 1. Stock-Based Exchange-Traded Funds

Name (Exchange: Ticker)
Broad-Based/Large Cap
DIAMONDS Trust Series I (NAR: DIA)
Fidelity NASDAQ Composite Index Tracking Stock (M: ONEQ)
iShares DJ U.S. Index Fund (NAR: IYY)
iShares Morningstar Large Core Index Fund (NAR: JKD)
iShares Morningstar Large Growth Index Fund (NAR: JKE)
iShares Morningstar Large Value Index (NAR: JFK)
iShares Russell 1000 Growth Index Fund (NAR: IWF)
iShares Russell 1000 Index Fund (NAR: IWB)
iShares Russell 1000 Value Index Fund (NAR: IWD)
iShares Russell 3000 Growth Index Fund (NAR: IWZ)
iShares Russell 3000 Index Fund (NAR: IWV)
iShares Russell 3000 Value Index Fund (NAR: IWW)
iShares S&P 100 Index Fund (NAR: OEF)
iShares S&P 1500 Index Fund (NAR: ISI)
iShares S&P 500 Growth Index Fund (NAR: IVW)
iShares S&P 500 Index Fund (NAR: IVV)
iShares S&P 500 Value Index Fund (NAR: IVE)
PowerShares Dynamic Large Cap Growth Portfolio (NAR: PWB)
PowerShares Dynamic Large Cap Value Portfolio (NAR: PWV)
PowerShares Dynamic Market Portfolio (NAR: PWC)
PowerShares FTSE RAFI US 1000 Portfolio (NAR: PRF)
PowerShares QQQ (formerly NASDAQ-100) (M: QQQQ)
Rydex Russell Top 50 (NAR: XLG)
Rydex S&P Equal Weight (NAR: RSP)
SPDR Dow Jones Large Cap Growth ETF (NAR: ELG)
SPDR Dow Jones Total Market ETF (NAR: TMW)
SPDR S&P500 ETF (NAR: SPY)
Vanguard Growth ETF (NAR: VUG)
Vanguard Large-Cap ETF (NAR: VV)
Vanguard Total Stock Market ETF (NAR: VTI)
Vanguard Value ETF (NAR: VTV)
Broad-Based/Mid Cap
iShares Morningstar Mid Growth Index Fund (NAR: JKH)
iShares Russell Midcap Growth Index Fund (NAR: IWP)
iShares Russell Midcap Index Fund (NAR: IWR)
iShares Russell Midcap Value Index Fund (NAR: IWS)
iShares S&P MidCap 400 Growth Index Fund (NAR: IJK)
<i>na = data is not available or is not applicable.</i>
<i>Exchange Key: NAR = New York Stock Exchange Arca; M = NASDAQ</i>

NAV Return 3 Yr (%): The three-year total return (annualized, dividends reinvested) based on a fund’s net asset value, through June 30, 2009.

Market Return 1 Yr (%): The one-year total return (dividends reinvested) based on a fund’s market price, through June 30, 2009.

NAV Return 1 Yr (%): The one-year total return (dividends reinvested) based on a fund’s net asset value, through June 30, 2009.

Index Return 1 Yr (%): The one-year total return (dividends reinvested) of the underlying index tracked by the fund, through June 30, 2009.

Tracking: Index – NAV Return (%): The difference between the one-year underlying index return and the fund NAV return. A negative sign indicates the fund’s NAV return outperformed the index. This provides an indication of how closely the ETF portfolio tracked the index over the last year.

RiskGrade 1 Yr Avg: A risk measure that relates the volatility of a particular portfolio to a portfolio of all stocks worldwide during normal

New ETFs and ETFs below \$100 million in assets are included in the on-line article at AAII.com.

NAV Return 3 Yr (%)	Market Return 1 Yr (%)	NAV Return 1 Yr (%)	Index Return 1 Yr (%)	Tracking: Index – NAV Return (%)	RiskGrade 1 Yr Avg	Asset Size (\$ Mil)	Exp Ratio (%)	Index Tracked
-6.4	-22.8	-22.9	-23.0	-0.1	192	6,944.1	0.18	Dow Jones Industrial Average
-4.8	-19.5	-19.1	-19.9	-0.8	194	108.4	0.30	NASDAQ Composite Index
-8.1	-26.3	-26.4	-26.4	0.0	195	508.6	0.20	Dow Jones U.S. Index
-5.5	-22.4	-22.5	-22.5	0.0	174	221.8	0.20	Morningstar Large Core Index
-6.3	-27.0	-27.1	-26.9	0.2	180	346.2	0.25	Morningstar Large Growth Index
-11.5	-27.8	-27.8	-27.7	0.1	215	172.3	0.25	Morningstar Large Value Index
-5.5	-24.5	-24.5	-24.5	0.0	187	9,478.7	0.20	Russell 1000 Growth Index
-8.2	-26.5	-26.6	-26.6	0.0	200	4,511.4	0.15	Russell 1000 Index
-11.1	-28.8	-28.9	-29.0	-0.1	221	7,068.1	0.20	Russell 1000 Value Index
-5.8	-24.5	-24.6	-24.5	0.1	178	315.3	0.25	Russell 3000 Growth Index
-8.4	-26.4	-26.5	-26.5	0.0	203	2,781.3	0.21	Russell 3000 Index
-11.2	-28.6	-28.6	-28.7	-0.1	219	322.3	0.26	Russell 3000 Value Index
-7.3	-23.5	-23.8	-23.8	0.0	194	2,205.9	0.20	S&P 100 Index
-8.3	-26.4	-26.3	-26.3	0.0	198	274.1	0.20	S&P Composite 1500 Index
-5.1	-23.8	-23.9	-23.8	0.1	183	5,083.1	0.18	S&P 500/Citigroup Growth Index
-8.2	-26.0	-26.1	-26.2	-0.1	200	18,337.1	0.09	S&P 500 Index
-11.5	-28.4	-28.5	-28.6	-0.1	221	2,893.7	0.18	S&P 500/Citigroup Value Index
-8.8	-31.1	-31.1	-30.7	0.4	191	277.3	0.63	Dynamic Large Cap Growth Intellidex
-3.7	-18.1	-18.3	-17.6	0.7	205	257.9	0.63	Dynamic Large Cap Value Intellidex
-9.9	-27.3	-27.3	-26.9	0.4	187	268.6	0.58	Dynamic Market Intellidex
-8.6	-21.5	-21.7	-21.5	0.2	222	417.4	0.67	FTSE RAFI US 1000 Index
-1.7	-19.0	-19.1	-19.0	0.1	196	14,024.9	0.20	NASDAQ-100 Index
-6.6	-21.7	-21.5	-21.5	0.0	186	286.8	0.20	Russell Top 50 Index
-9.0	-24.6	-24.6	-23.5	1.1	180	1,128.6	0.40	S&P Equal Weight Index
-5.8	-25.5	-25.5	-25.5	0.0	129	154.8	0.20	Dow Jones U.S. Large-Cap Growth Total Stk Mkt Idx
-8.0	-26.1	-26.1	-26.3	-0.2	209	158.2	0.20	Dow Jones U.S. Total Stock Market Index
-8.1	-25.9	-26.0	-26.2	-0.2	206	63,739.1	0.09	S&P 500 Index
-5.3	-25.7	-25.7	-25.7	0.0	184	3,294.1	0.15	MSCI U.S. Prime Market Growth Index
-7.7	-26.2	-26.3	-26.3	0.0	198	2,173.8	0.13	MSCI U.S. Prime Market 750 Index
-8.0	-26.0	-26.1	-26.2	-0.1	202	10,257.9	0.09	MSCI U.S. Broad Market Index
-10.3	-26.6	-26.7	-26.9	-0.2	220	2,357.8	0.15	MSCI U.S. Prime Market Value Index
-8.7	-36.0	-36.0	-35.9	0.1	217	139.2	0.30	Morningstar Mid Growth Index
-8.1	-30.4	-30.4	-30.3	0.1	216	2,064.3	0.25	Russell Midcap Growth Index
-9.3	-30.2	-30.3	-30.3	0.0	217	3,638.1	0.21	Russell Midcap Index
-11.1	-30.4	-30.3	-30.5	-0.2	225	2,097.9	0.25	Russell Midcap Value Index
-6.0	-28.9	-28.9	-28.9	0.0	210	1,590.7	0.25	S&P MidCap 400/Citigroup Growth Index

[Continued on next page]

market conditions. The base worldwide stock portfolio has a RiskGrade of 100; a portfolio with a RiskGrade of 77 implies that it has a risk 77% as high as the average risk of the worldwide stock portfolio.

Asset Size (\$ Mil): Total assets in millions of dollars.

Expense Ratio (%): The expense ratio for each fund.

Index Tracked: The underlying index that the fund is structured to track.

Sources: Market and NAV return and index information on performance of the funds and indexes, fund structure and the index tracked are from fund sponsor Web sites. Asset size and expense ratio are from Morningstar, Inc. and fund sponsors. RiskGrades are from Riskgrades.com.

They primarily consist of institutional traders who are able to make small profits on the arbitrage opportunities between the ETF shares and the underlying basket of securities. Here's how it works.

The underlying assets in an ETF are priced every 15 seconds, allowing a per unit value of the portfolio to be determined throughout the day. This is known as the intraday indicative value of the fund, and it is similar to a mutual fund's net asset value (NAV), except that it is determined continuously throughout the day.

Institutional traders closely track these intraday NAVs. If an ETF's unit price diverges from its intraday NAV, the trader can profit by either delivering the basket of individual securities to the fund (for creation units) and then simultaneously selling ETF shares in the secondary markets, or by buying ETF shares on the secondary markets, and simultaneously receiving the basket of individual securities from the ETF (for redemption units).

This institutional trading and arbitrating process helps keep the prices of ETFs on the secondary markets very close to their actual NAV. In fact, the amount of divergence between an ETF's intraday NAV and its share price is related primarily to the liquidity of the ETF's underlying basket of securities. For ETFs that track indexes with less-liquid holdings, arbitrating is more difficult and therefore divergence is more likely to be greater.

ETF Advantages

ETFs have several unique advantages over traditional index funds.

Lower Costs at the Fund Level

Although index mutual funds have low annual expense ratios, ETFs typically—but not always—have even lower ratios. Like their traditional index fund counterparts, most ETFs are passively managed and, therefore, do not have high management fees.

Unlike traditional index funds, ETFs are traded on an exchange and,

therefore, the fund does not have to buy and sell securities to accommodate shareholder purchases and redemptions. This also results in lower annual taxable distributions by the fund, as well as lower costs.

And although an investor must pay commissions to buy and sell shares, ETFs do not impose annual 12b-1 fees.

Trading Flexibility

Because they are exchange-traded, ETFs have the same trading flexibility as an individual stock:

- They can be bought and sold at intraday market prices, unlike traditional mutual funds which are bought and sold at end-of-day prices;
- They can be purchased on margin;
- They can be sold short; and
- They can be traded using stop orders and limit orders, which allow investors to specify the price points at which they are willing to buy and sell shares.

ETF Risks

Exchange-traded funds carry many of the risks of traditional index mutual funds. In particular, they face market risk—the risk that the sector of the market that they are tracking may drop based on a variety of factors such as economic conditions

Table 1. Stock-Based Exchange-Traded Funds (con't)

Name (Exchange: Ticker)
Broad-Based/Mid Cap (con't)
iShares S&P MidCap 400 Index Fund (NAR: IJH)
iShares S&P MidCap 400 Value Index Fund (NAR: IJJ)
PowerShares Dynamic Mid Cap Growth Portfolio (NAR: PWJ)
SPDR Mid Cap ETF (NAR: MDY)
Vanguard Extended Market ETF (NAR: VXF)
Vanguard Mid-Cap ETF (NAR: VO)
Vanguard Mid-Cap Growth ETF (NAR: VOT)
Vanguard Mid-Cap Value ETF (NAR: VOE)
Broad-Based/Small Cap
iShares Russell 2000 Growth Index Fund (NAR: IWO)
iShares Russell 2000 Index Fund (NAR: IWM)
iShares Russell 2000 Value Index Fund (NAR: IWN)
iShares S&P SmallCap 600 Growth Index Fund (NAR: IJT)
iShares S&P SmallCap 600 Index Fund (NAR: IJR)
iShares S&P SmallCap 600 Value Index Fund (NAR: IJS)
PowerShares FTSE RAFI US 1500 Small-Mid Port (M: PRFZ)
Vanguard Small-Cap ETF (NAR: VB)
Vanguard Small-Cap Growth ETF (NAR: VBK)
Vanguard Small-Cap Value ETF (NAR: VBR)
Broad-Based/Micro Cap
iShares Russell Microcap Index Fund (NAR: IWC)
Broad-Based/Specialty
PowerShares DWA Technical Leaders Portfolio (NAR: PDP)
Broad-Based/Specialty/Divided Focus
First Trust Value Line Dividend Index Fund (NAR: FVD)
iShares DJ Select Dividend Index Fund (NAR: DVY)
SPDR S&P Dividend ETF (NAR: SDY)
Vanguard Dividend Appreciation ETF (NAR: VIG)
Vanguard High Dividend Yield ETF (NAR: VYM)
WisdomTree Dividend ex-Financials Fund (NAR: DTN)
WisdomTree High-Yielding Equity Fund (NAR: DHS)
WisdomTree LargeCap Dividend Fund (NAR: DLN)
WisdomTree Total Dividend Fund (NAR: DTD)
Sector
Market Vectors Agribusiness ETF (NAR: MOO)
Market Vectors Gaming ETF (NAR: BJK)
Sector/Biotechnology
iShares NASDAQ Biotechnology Index Fund (NAR: IBB)
PowerShares Dynamic Biotech & Genome Portfolio (NAR: PBE)
SPDR S&P Biotech ETF (NAR: XBI)
Sector/Consumer
iShares DJ U.S. Consum Goods Sector Index Fund (NAR: IYK)
iShares DJ U.S. Consum Servs Sector Index Fund (NAR: IYC)
iShares DJ U.S. Home Construction Index Fund (NAR: ITB)
Select Sector SPDR Fund - Consumer Discretionary (NAR: XLY)
Select Sector SPDR Fund - Consumer Staples (NAR: XLP)
<i>na = data is not available or is not applicable.</i>

New ETFs and ETFs below \$100 million in assets are included in the on-line article at AAI.com.

NAV Return 3 Yr (%)	Market Return 1 Yr (%)	NAV Return 1 Yr (%)	Index Return 1 Yr (%)	Tracking: Index – NAV Return (%)	RiskGrade 1 Yr Avg	Asset Size (\$ Mil)	Exp Ratio (%)	Index Tracked
-7.6	-27.9	-27.9	-28.0	-0.1	220	4,602.4	0.21	S&P MidCap 400 Index
-9.3	-27.2	-27.2	-27.2	0.0	233	1,346.5	0.28	S&P MidCap 400/Citigroup Value Index
-7.7	-34.8	-37.9	-34.4	3.5	205	133.4	0.63	Dynamic Mid Cap Growth Intellidex
-7.7	-28.3	-28.1	-28.0	0.1	na	6,349.1	0.25	S&P MidCap 400 Index
-8.7	-27.7	-27.7	-27.8	-0.1	220	633.0	0.15	S&P Completion Index
-10.0	-31.4	-31.5	-31.5	0.0	56	1,482.7	0.15	MSCI U.S. Mid Cap 450 Index
na	-36.2	-36.3	-36.3	0.0	58	523.7	0.15	MSCI U.S. Mid Cap Growth Index
na	-26.9	-26.9	-26.9	0.0	232	492.4	0.15	MSCI U.S. Mid Cap Value Index
-7.8	-24.8	-24.7	-24.8	-0.1	227	2,709.2	0.25	Russell 2000 Growth Index
-9.8	-24.9	-24.8	-25.0	-0.2	240	9,038.4	0.24	Russell 2000 Index
-12.0	-25.1	-25.0	-25.2	-0.2	259	3,015.1	0.33	Russell 2000 Value Index
-8.5	-26.7	-26.6	-26.7	-0.1	213	1,123.3	0.25	S&P SmallCap 600/Citigroup Growth Index
-9.6	-25.4	-25.3	-25.3	0.0	228	3,919.1	0.20	S&P SmallCap 600 Index
-10.8	-24.4	-24.2	-24.3	-0.1	246	1,141.4	0.25	S&P SmallCap 600/Citigroup Value Index
na	-19.8	-19.7	-20.1	-0.4	241	108.5	0.71	FTSE RAFI US 1500 Small-Mid Index
-8.9	-25.1	-25.1	-25.3	-0.2	53	1,621.5	0.15	MSCI U.S. Small Cap 1750 Index
-7.4	-27.2	-27.1	-27.2	-0.1	220	993.1	0.15	MSCI U.S. Small Cap Growth Index
-10.8	-23.4	-23.3	-23.5	-0.2	249	1,023.3	0.15	MSCI U.S. Small Cap Value Index
-14.5	-25.3	-25.2	-24.4	0.8	228	286.0	0.68	Russell Microcap Index
na	-43.3	-43.3	-44.5	-1.2	202	117.6	0.71	Dorsey Wright Technical Leaders Index
-6.3	-16.9	-17.0	-16.4	0.6	179	121.9	0.70	Value Line Dividend Index
-14.0	-24.5	-24.6	-23.1	1.5	226	2,989.2	0.40	Dow Jones Select Dividend Index
-7.9	-10.1	-10.0	-10.4	-0.4	231	658.7	0.35	S&P High Yield Dividend Aristocrats Index
-5.0	-18.7	-18.7	-18.8	-0.1	172	1,052.4	0.24	Dividend Achievers Select Index
na	-23.4	-23.4	-23.4	0.0	199	322.9	0.20	FTSE High Dividend Yield Index
-10.2	-22.7	-22.7	-22.5	0.2	229	123.7	0.38	WisdomTree Dividend ex-Financials Index
-14.8	-26.9	-26.8	-26.7	0.1	260	121.4	0.38	WisdomTree High-Yielding Equity Fund
-9.9	-25.1	-25.3	-24.8	0.5	206	350.1	0.28	WisdomTree LargeCap Dividend Index
-10.1	-25.3	-25.3	-24.9	0.4	205	103.2	0.28	WisdomTree Dividend Index
na	-43.8	-43.9	-43.3	0.6	295	1,389.3	0.59	DAXglobal Agribusiness Index
na	-34.0	-34.2	-32.6	1.6	291	104.1	0.70	S-Network Global Gaming Index
0.0	-5.5	-5.5	-5.5	0.0	169	1,355.4	0.48	NASDAQ Biotechnology Index
-4.8	-18.7	-18.7	-18.1	0.6	189	148.2	0.63	Dynamic Biotech & Genome Intellidex
3.9	-11.3	-11.4	-11.1	0.3	180	428.5	0.35	S&P Biotechnology Select Industry Index
-2.2	-12.9	-13.0	-12.7	0.3	147	298.7	0.48	DJ U.S. Consumer Goods Index
-8.9	-17.7	-17.7	-17.4	0.3	187	173.1	0.48	DJ U.S. Consumer Services Index
-36.1	-30.0	-29.7	-28.0	1.7	382	189.2	0.48	Dow Jones U.S. Select Home Construction Index
-10.2	-16.7	-16.7	-16.8	-0.1	227	1,122.7	0.21	Consumer Discretionary Select Sector Index
0.7	-10.9	-10.6	-10.6	0.0	125	1,924.3	0.21	Consumer Staples Select Sector Index

Exchange Key: NAR = New York Stock Exchange Arca; M = NASDAQ

[Continued on next page]

and global events, investor sentiment and sector-specific factors. ETFs also face other risks.

Market Pricing

The market share price of an exchange-traded fund is determined by the forces of supply and demand and, therefore, investors may purchase shares at a premium or discount to the fund's net asset value. However, arbitrage by large institutional traders tends to keep these low. Discounts and premiums to NAV are related primarily to the liquidity of the ETF's underlying basket of securities.

Tracking Error

Tracking error refers to the fact that an index fund's returns can sometimes fall short of (or exceed) the benchmark returns. Most index-based tradable funds track their benchmarks closely, as do low-cost traditional index funds.

Some portfolios may exhibit larger tracking errors than typical. Such discrepancies are not necessarily a drawback for investors, especially if limited alternatives exist for gaining exposure to a tiny segment of the stock market. Yet it's important to understand why these deviations exist.

Three primary factors account for tracking errors:

- **Sampling:** A fund may sample the universe tracked by the index rather than employ full replication.
- **SEC- and IRS-mandated diversification requirements:** Investment company regulations state that a single company may account for no more than 25% of a fund's total assets. Thus, if a company makes up more than 25% of a market's index, that stock would be underweighted by the fund. To optimize a portfolio, the manager may increase weightings of other portfolio components or even go outside the index.
- **Expenses:** Even if a fund identically weights all the stocks in its benchmark, performance will be reduced by the expense ratio (i.e., net return equals gross return of in-

dex less expenses).

One other factor that can result in tracking errors for some ETFs is dividend payments. An exchange-traded fund typically pays out dividends received from the underlying stocks it holds on a quarterly basis, but the underlying stocks pay dividends throughout the quarter. Therefore, these funds may hold cash for various time periods throughout the quarter, even though the underlying benchmark index is not composed of cash.

The Indexes

Most ETFs are designed to replicate the holdings and correspond to the performance and yield of an underlying index, although several ETFs are designed to track the price of a commodity or currency.

Benchmark s tracked by exchange-traded funds fall into four general categories:

- **Broad-based indexes:** A wide cross-section of equities from a broad range of industries is included in these benchmarks. Style-specific "growth" and "value" options exist for certain benchmarks; you can choose between large-cap, mid-cap, small-cap and micro-cap firms; there are in-

Table 1. Stock-Based Exchange-Traded Funds (con't)

Name (Exchange: Ticker)
Sector/Consumer (con't)
SPDR S&P Homebuilders ETF (NAR: XHB)
SPDR S&P Retail ETF (NAR: XRT)
Vanguard Consumer Discretionary ETF (NAR: VCR)
Vanguard Consumer Staples ETF (NAR: VDC)
Sector/Energy
iShares DJ U.S. Energy Sector Index Fund (NAR: IYE)
iShares DJ U.S. Oil & Gas Expl & Prd Idx Fund (NAR: IEO)
iShares DJ U.S. Oil Equip & Servs Index Fund (NAR: IEZ)
Market Vectors Coal ETF (NAR: KOL)
Market Vectors Nuclear Energy ETF (NAR: NLR)
PowerShares DB Energy Fund (NAR: DBE)
PowerShares DB Oil Fund (NAR: DBO)
PowerShares Dynamic Oil & Gas Services Portfolio (NAR: PXJ)
PowerShares WilderHill Clean Energy Portfolio (NAR: PBW)
Select Sector SPDR Fund - Energy (NAR: XLE)
SPDR S&P Oil & Gas Equipment & Services ETF (NAR: XES)
SPDR S&P Oil & Gas Exploration & Production ETF (NAR: XOP)
United States 12 Month Oil Fund, LP (NAR: USL)
United States Natural Gas Fund (NAR: UNG)
United States Oil Fund, LP (NAR: USO)
Vanguard Energy ETF (NAR: VDE)
Sector/Financial
iShares DJ U.S. Broker-Dealers Index Fund (NAR: IAI)
iShares DJ U.S. Financial Sector Index Fund (NAR: IYF)
iShares DJ U.S. Financial Services Index Fund (NAR: IYG)
iShares DJ U.S. Regional Banks Index Fund (NAR: IAT)
PowerShares Financial Preferred Portfolio (NAR: PGF)
Select Sector SPDR Fund - Financial (NAR: XLF)
SPDR KBW Bank ETF (NAR: KBE)
SPDR KBW Insurance ETF (NAR: KIE)
SPDR KBW Regional Banking ETF (NAR: KRE)
Vanguard Financials ETF (NAR: VFH)
Sector/Health
iShares DJ U.S. Healthcare Sector Index Fund (NAR: IYH)
iShares DJ U.S. Medical Devices Index Fund (NAR: IHI)
Select Sector SPDR Fund - Health Care (NAR: XLV)
Vanguard Health Care ETF (NAR: VHT)
Sector/Industrial
iShares DJ U.S. Aerospace & Defense Index Fund (NAR: ITA)
iShares DJ U.S. Industrial Sector Index Fund (NAR: IYJ)
PowerShares Aerospace & Defense Portfolio (NAR: PPA)
Select Sector SPDR Fund - Industrial (NAR: XLI)
Vanguard Industrials ETF (NAR: VIS)
Sector/Materials
iShares DJ U.S. Basic Materials Sector Index Fund (NAR: IYM)
Select Sector SPDR Fund - Materials (NAR: XLB)

na = data is not available or is not applicable.

New ETFs and ETFs below \$100 million in assets are included in the on-line article at AAI.com.

NAV Return 3 Yr (%)	Market Return 1 Yr (%)	NAV Return 1 Yr (%)	Index Return 1 Yr (%)	Tracking: Index – NAV Return (%)	RiskGrade 1 Yr Avg	Asset Size (\$ Mil)	Exp Ratio (%)	Index Tracked
-28.5	-27.3	-27.3	-27.5	-0.2	342	562.0	0.35	S&P Homebuilders Select Industry Index
-8.7	-3.3	-3.6	-3.4	0.2	251	976.5	0.35	S&P Retail Select Industry Index
-10.9	-17.7	-17.8	-17.8	0.0	58	104.8	0.25	MSCI U.S. Investable Mkt Consum Discre Index
1.1	-9.6	-9.6	-10.3	-0.7	130	524.8	0.25	MSCI U.S. Investable Mkt Consum Staples Index
-2.5	-42.2	-42.3	-41.5	0.8	281	639.2	0.48	Dow Jones U.S. Oil & Gas Index
-6.0	-51.9	-51.9	-51.7	0.2	356	298.2	0.48	Dow Jones U.S. Select Oil Explor & Prod'n Index
-11.1	-57.7	-57.7	-57.8	-0.1	346	261.8	0.48	Dow Jones U.S. Select Oil Equip & Servs Index
na	-59.8	-59.3	-59.1	0.2	433	269.0	0.62	Stowe Coal Index
na	-34.3	-34.1	-33.5	0.6	243	164.6	0.61	DAXglobal Nuclear Energy Index
na	-54.3	-54.3	-54.4	-0.1	233	277.4	0.75	Deutsche Bank Liq Com Index-Optimum Yield Energy
na	-52.0	-52.0	-51.7	0.3	256	242.2	0.50	Deutsche Bank Liq Com Index-Optimum Yield Oil
-13.0	-59.0	-58.9	-58.6	0.3	353	168.2	0.62	Dynamic Oil & Gas Services Intellidex
-19.0	-49.0	-49.1	-50.3	-1.2	324	763.9	0.66	WilderHill Clean Energy Index
-4.0	-44.6	-44.6	-44.6	0.0	295	4,328.4	0.21	Energy Select Sector Index
-10.7	-56.9	-56.8	-56.8	0.0	354	199.1	0.35	S&P Oil & Gas Equip & Servs Sel Indus Index
-6.3	-54.4	-54.4	-54.4	0.0	357	310.4	0.35	S&P Oil & Gas Explor & Prod'n Sel Indus Index
na	-55.0	-55.0	-55.4	-0.4	250	181.2	0.60	Light, sweet crude oil futures prices
na	-77.9	-77.9	-77.9	0.0	269	3,612.0	0.60	Natural gas futures prices
-18.4	-66.6	-66.6	-66.6	0.0	292	2,303.3	0.45	Light, sweet crude oil futures prices
-3.9	-45.1	-45.1	-43.4	1.7	295	799.1	0.25	MSCI U.S. Investable Market Energy Index
-16.7	-21.6	-21.6	-21.5	0.1	354	181.5	0.48	Dow Jones U.S. Select Investment Services Index
-23.6	-35.0	-35.0	-35.0	0.0	369	498.0	0.48	Dow Jones U.S. Financials Index
-25.1	-31.5	-31.6	-31.7	-0.1	408	313.3	0.48	Dow Jones U.S. Financial Services Index
-26.3	-31.8	-31.8	-31.8	0.0	385	117.5	0.48	Dow Jones U.S. Select Regional Banks Index
na	-13.0	-13.3	-14.7	-1.4	369	1,106.0	0.72	Wachovia Hybrid & Preferred Sec Financial Index
-25.9	-38.3	-38.3	-38.4	-0.1	422	6,019.5	0.21	Financial Select Sector Index
-27.4	-34.5	-34.5	-34.8	-0.3	454	868.7	0.35	KBW Bank Index
-18.1	-33.6	-33.6	-33.5	0.1	339	141.9	0.35	KBW Insurance Index
-24.7	-28.1	-27.9	-28.1	-0.2	359	455.1	0.35	KBW Regional Banking Index
-23.1	-34.6	-34.5	-34.8	-0.3	365	496.6	0.25	MSCI U.S. Investable Mkt Financials Index
-2.2	-10.6	-10.7	-10.4	0.3	147	662.1	0.48	Dow Jones U.S. Healthcare Index
-1.1	-21.9	-21.9	-21.5	0.4	169	251.9	0.48	Dow Jones U.S. Select Medical Equipment Index
-2.7	-11.6	-11.6	-11.4	0.2	149	1,898.8	0.21	Health Care Select Sector Index
-2.4	-10.7	-10.7	-10.6	0.1	147	526.5	0.25	MSCI U.S. Investable Mkt Health Care Index
-4.0	-23.7	-23.7	-23.4	0.3	197	130.6	0.48	Dow Jones U.S. Select Aerospace & Defense Index
-10.9	-33.7	-33.7	-33.6	0.1	212	212.6	0.48	Dow Jones U.S. Industrials Index
-4.8	-24.1	-24.3	-25.3	-1.0	186	122.9	0.66	SPADE Defense Index
-11.4	-33.5	-33.5	-33.4	0.1	214	1,225.4	0.21	Industrial Select Sector Index
-11.7	-34.8	-34.9	-34.8	0.1	249	155.3	0.25	MSCI U.S. Investable Mkt Industrials Index
-6.3	-47.2	-47.3	-47.2	0.1	285	457.8	0.48	Dow Jones U.S. Basic Materials Sector Index
-4.6	-36.1	-36.2	-36.2	0.0	233	1,034.1	0.21	Materials Select Sector Index

Exchange Key: NAr = New York Stock Exchange Arca; M = NASDAQ

[Continued on next page]

dexes that focus on dividends, and others that use methods other than market capitalizations to weight the holdings in the index; lastly there are proprietary indexes that focus on specific strategies or market segments.

- **Sector indexes:** A specific industry or stock group, such as real estate or telecommunications, is the focus.
- **International indexes:** Global stock indexes, regional indexes and country-specific equity indexes are included. A group of exchange-traded funds does not track foreign indexes but rather foreign currencies.
- **Bond indexes:** Currently bond indexes are tracked covering a wide swath of the bond market, including several Treasury indexes of varying maturities, a TIPS (Treasury inflation-protected securities) index, and multiple municipal bond indexes.

If you are interested in an ETF, you should make sure that you understand the underlying index (or asset) that it tracks. For example, although DIAMONDS and iShares Dow Jones U.S. Index fund both cover broad-based large-cap stocks, the performance of the underlying indexes will differ—the Dow Jones industrial average (tracked by DIAMONDS) covers only 30 stocks and is price-weighted, while the Dow Jones U.S. index is broader-based and is capitalization weighted.

The Rydex S&P Equal Weight Trust covers an S&P 500 index that gives equal emphasis to all 500 stocks. In contrast, the S&P 500 index is based on market capitalizations, which means the stock performances of larger companies have a greater impact on the index; ETFs tracking the S&P 500 index will perform differently than those following an S&P 500 equal-weight index.

For some ETFs, specialty indexes have been created—for example, the “Dynamic Intellidexes” have been created for many of the PowerShares exchange-traded funds, and the WisdomTree indexes that focus on dividends have been created for the Wis-

domTree ETFs. Some of these indexes base their holdings and their weightings on fundamental rules rather than market capitalizations, introducing a strategy-based approach to the offering. Rules-based indexes will perform quite differently than a traditional index fund.

Be careful of similar-sounding names. The Select Sector SPDR indexes are different than the S&P Select Industry indexes, which are constructed from a universe of more than 5,000 securities that collectively comprise the S&P Total Market index. The S&P Total Market index measures the performance of common equities listed on New York, American, and NASDAQ exchanges. Each S&P Select Industry index is constructed with an equal-weighted methodology and is rebalanced quarterly, which is designed to prevent a few select stocks from dominating the performance of the index.

The Select Sector SPDR fund indexes, which cover the various sectors of the S&P 500, were designed so that, taken in combination, all nine of the Select Sector SPDR funds make up the S&P 500. These indexes are not the same as the more familiar S&P sector indexes that are published by Standard & Poor’s, although they would likely perform very similarly.

Table 1. Stock-Based Exchange-Traded Funds (con’t)

Name (Exchange: Ticker)
Sector/Materials (con’t)
Vanguard Materials ETF (NAr: VAW)
Sector/Natural Resources, Gold, Commodities
GreenHaven Continuous Commodity Index Fund (NAr: GCC)
iShares COMEX Gold Trust (NAr: IAU)
iShares S&P GSCI Commodity-Indexed Trust (NAr: GSG)
iShares S&P N Amer Natural Res Sector Index Fund (NAr: IGE)
iShares Silver Trust (NAr: SLV)
Market Vectors Gold Miners ETF (NAr: GDX)
Market Vectors Steel ETF (NAr: SLX)
PowerShares DB Agriculture Fund (NAr: DBA)
PowerShares DB Base Metals Fund (NAr: DBB)
PowerShares DB Commodity Index Tracking Fund (NAr: DBC)
PowerShares DB Gold Fund (NAr: DGL)
PowerShares DB Precious Metals Fund (NAr: DBP)
PowerShares Water Resources Portfolio (NAr: PHO)
SPDR Gold Shares (NAr: GLD)
SPDR S&P Metals and Mining ETF (NAr: XME)
Sector/Real Estate
iShares Cohen & Steers Realty Majors Index Fund (NAr: ICF)
iShares DJ U.S. Real Estate Index Fund (NAr: IYR)
SPDR Dow Jones REIT ETF (NAr: RWR)
Vanguard REIT ETF (NAr: VNQ)
Sector/Technology
iShares DJ U.S. Technology Sector Index Fund (NAr: IYW)
iShares S&P N Amer Tech-Multimed Network Index Fund (NAr: IGN)
iShares S&P N Amer Technology Sector Index (NAr: IGM)
iShares S&P N Amer Tech-Semiconductors Index Fund (NAr: IGW)
iShares S&P N Amer Tech-Software Index Fund (NAr: IGV)
Select Sector SPDR Fund - Technology (NAr: XLK)
SPDR Morgan Stanley Technology ETF (NAr: MTK)
SPDR S&P Semiconductor ETF (NAr: XSD)
Vanguard Information Technology ETF (NAr: VGT)
Sector/Telecommunications
iShares DJ U.S. Telecom Sector Index Fund (NAr: IYZ)
Vanguard Telecommunication Services ETF (NAr: VOX)
Sector/Transportation
iShares DJ Transportation Average Index Fund (NAr: IYT)
Sector/Utilities
iShares DJ U.S. Utilities Sector Index Fund (NAr: IDU)
Select Sector SPDR Fund - Utilities (NAr: XLU)
Vanguard Utilities ETF (NAr: VPU)
Foreign/Global
iShares MSCI - EAFE (NAr: EFA)
iShares MSCI - EAFE Growth (NAr: EFG)
iShares MSCI - EAFE Value (NAr: EFV)
iShares MSCI ACWI ex U.S. Index Fund (M: ACWX)

na = data is not available or is not applicable.

New ETFs and ETFs below \$100 million in assets are included in the on-line article at AII.com.

NAV Return 3 Yr (%)	Market Return 1 Yr (%)	NAV Return 1 Yr (%)	Index Return 1 Yr (%)	Tracking: Index – NAV Return (%)	RiskGrade 1 Yr Avg	Asset Size (\$ Mil)	Exp Ratio (%)	Index Tracked
-4.8	-40.0	-40.0	-40.1	-0.1	69	282.2	0.25	MSCI U.S. Investable Mkt Materials Index
na	-37.9	-38.2	-40.2	-2.0	159	143.2	0.95	Continuous Commodity Index-Total Return
14.3	-0.3	-0.3	0.1	0.4	156	2,108.7	0.40	price of gold (Comex Spot Mo Settle Price, Gld Fut)
na	-59.3	-59.3	-59.6	-0.3	220	1,434.7	0.75	S&P GSCI Total Return Index
-4.9	-44.9	-45.0	-44.9	0.1	297	1,327.4	0.48	S&P North America Natural Resources Index
8.6	-21.4	-21.4	-21.0	0.4	253	3,908.1	0.50	price of silver (London Silver Fix)
-0.1	-22.1	-21.8	-21.5	0.3	367	4,322.1	0.55	NYSE Arca Gold Miners Index
na	-58.4	-58.4	-58.3	0.1	428	227.5	0.55	NYSE Arca Steel Index
na	-36.4	-36.6	-37.4	-0.8	177	2,334.4	0.75	Deutsche Bank Liq Com Index-Optim Yield Agricul
na	-38.2	-37.8	-38.0	-0.2	204	308.4	0.75	Deutsche Bank Liq Com Index-Optim Yld Indus'l Mtls
-1.8	-48.9	-49.2	-49.2	0.0	183	2,974.2	0.75	Deutsche Bank Liq Com Index-Optimum Yield
na	-1.8	-1.9	-1.6	0.3	166	127.2	0.50	Deutsche Bank Liq Com Index-Optim Yld Gold
na	-6.0	-6.0	-5.6	0.4	173	152.5	0.75	Deutsche Bank Liq Com Index-Optim Yld Prec Mtls
-3.5	-28.7	-28.7	-27.0	1.7	248	1,251.1	0.64	Palisades Water Index
14.6	-0.2	0.1	0.4	0.4	156	33,655.2	0.40	price of gold bullion
-8.6	-60.0	-59.9	-59.9	0.0	417	602.4	0.35	S&P Metals & Mining Select Industry Index
-20.7	-48.4	-48.4	-48.7	-0.3	442	1,100.6	0.35	Cohen & Steers Realty Majors Index
-19.0	-42.6	-42.4	-42.5	-0.1	392	1,399.5	0.48	Dow Jones U.S. Real Estate Index
-19.6	-45.0	-44.9	-45.3	-0.4	419	908.9	0.25	Dow Jones U.S. Select REIT Index
-17.7	-42.4	-42.4	-42.8	-0.4	408	2,177.3	0.15	MSCI U.S. REIT Index
-1.7	-17.3	-17.4	-16.9	0.5	193	902.6	0.48	Dow Jones U.S. Technology Index
-7.6	-16.7	-16.7	-16.3	0.4	216	138.4	0.48	S&P North America Tech-Multimed Networking Index
-1.6	-18.8	-18.8	-18.5	0.3	195	278.0	0.48	S&P North America Technology Sector Index
-13.5	-27.3	-27.4	-27.4	0.0	241	189.0	0.48	S&P North America Technology-Semiconductor Index
0.6	-18.5	-18.7	-18.5	0.2	201	288.3	0.48	S&P North America Technology-Software Index Fund
-2.4	-18.7	-18.8	-18.7	0.1	200	2,890.4	0.21	Technology Select Sector Index
-2.5	-17.9	-17.9	-17.7	0.2	211	197.7	0.50	Morgan Stanley Technology Index
-9.9	-18.0	-17.8	-19.1	-1.3	255	103.3	0.35	S&P Semiconductor Select Industry Index
-2.1	-18.5	-18.5	-18.4	0.1	48	511.2	0.25	MSCI U.S. Investable Market Info Tech Index
-8.7	-22.8	-23.0	-22.9	0.1	222	520.6	0.48	Dow Jones U.S. Telecommunications Index
-4.9	-17.6	-17.7	-21.5	-3.8	215	144.1	0.25	MSCI U.S. Investable Mkt Telecom Servs Index
-12.1	-33.1	-33.1	-33.1	0.0	239	315.3	0.48	Dow Jones Transportation Average Index
-2.4	-29.6	-29.7	-29.7	0.0	167	445.3	0.48	Dow Jones U.S. Utilities Index
1.4	-28.3	-28.4	-28.4	0.0	172	2,041.1	0.21	Utilities Select Sector Index
-1.6	-27.3	-27.4	-27.3	0.1	167	340.8	0.25	MSCI U.S. Investable Market Utilities Index
-7.9	-30.9	-31.1	-31.3	-0.2	233	29,391.5	0.34	MSCI EAFE Index
-7.4	-33.0	-33.4	-33.6	-0.2	215	1,103.8	0.40	MSCI EAFE Growth Index
-8.6	-28.5	-28.9	-28.9	0.0	243	1,042.2	0.40	MSCI EAFE Value Index
na	-32.5	-32.7	-30.9	1.8	236	246.2	0.35	MSCI All Country World Index ex U.S.

Exchange Key: NAR = New York Stock Exchange Arca; M = NASDAQ

[Continued on next page]

Information on the underlying indexes can be found in each ETF's prospectus, and in many instances at the fund sponsor's Web site.

Structure

There are three main structures for index ETFs:

- **Open-end mutual fund:** By far the most common structure, these are registered with the SEC as investment companies.
- **Unit investment trust:** Also registered with the SEC as investment companies, but far less common. However, the first ETFs were structured this way and, thus, some of the most popular ETFs—PowerShares QQQ, DIAMONDS and certain SPDRs—are structured as unit investment trusts.

• **Exchange-traded grantor trust:** The most similar to actually owning the underlying shares. These are not registered as investment companies and are not considered “exchange-traded funds” under strict definitions of the term. Examples include the HOLDRS funds, and most of the exchange-traded funds that track an underlying commodity (for example, the iShares COMEX Gold Trust and SPDR Gold Shares) or currency (the CurrencyShares ETFs).

The on-line version of this guide lists the structure for each exchange-traded fund. What's the advantage of one structure over another?

Open-End & Unit Investment Trusts

The differences between ETFs structured as open-end mutual funds and unit investment trusts are relatively minor.

ETFs structured as open-end mutual funds can reinvest the dividends they receive from their underlying holdings in the fund when they receive them, whereas unit investment trusts cannot. The latter accumulate the dividends and reinvest them quarterly, resulting in a so-called “dividend drag” during rising markets. The drag is not that significant with an S&P 500 index fund

because the benchmark yields currently are low; it would be more noticeable with higher-yielding portfolios.

The open-end structure also allows a fund to use stock index futures to equitize its dividend stream, enabling it to be more fully invested in the underlying index.

In addition, stock loans can be made by open-end funds but not by unit investment trusts. The interest generated by such loans theoretically results in lower expenses. Stock lending is most significant for a fund that owns a lot of hard-to-borrow stock.

Grantor Trusts

Exchange-traded funds structured as grantor trusts operate quite a bit differently than ETFs structured as investment companies.

Merrill Lynch's HOLDRS are the largest group of funds organized as grantor trusts. Many information providers do not define HOLDRS as “exchange-traded funds” but rather list them separately; HOLDRS are included in the on-line listing at AAIL.com, but do not appear in the printed listings in this issue.

HOLDRS do provide diversified exposure to a particular industry, sector or group. However, HOLDRS allow you to keep ownership benefits related to the underlying stocks: the right to vote shares, to receive dividends and to

Table 1. Stock-Based Exchange-Traded Funds (con't)

Name (Exchange: Ticker)

Foreign/Global (con't)

iShares MSCI ACWI Index Fund (M: ACWI)
iShares MSCI EAFE Small Cap Index Fund (NAr: SCZ)
iShares S&P Global 100 Index Fund (NAr: IOO)
PowerShares International Div Achievers Portfolio (NAr: PID)
SPDR MSCI ACWI ex-US ETF (NAr: CWI)
SPDR S&P International Small Cap ETF (NAr: GWX)
Vanguard FTSE All-World ex-U.S. ETF (NAr: VEU)
WisdomTree DEFA Equity Income Fund (NAr: DTH)
WisdomTree DEFA Fund (NAr: DWM)
WisdomTree International Dividend ex-Financials Fund (NAr: DOO)
WisdomTree International SmallCap Dividend Fund (NAr: DLS)

Foreign/Regional

BLDRS Emerging Markets 50 ADR Index Fund (M: ADRE)
Claymore/BNY Mellon BRIC (NAr: EEB)
iShares MSCI - EMU (NAr: EZU)
iShares MSCI All Country Asia ex Japan Index Fund (M: AAXJ)
iShares MSCI BRIC Index Fund (NAr: BKF)
iShares MSCI Emerging Markets Index Fund (NAr: EEM)
iShares MSCI Pacific Ex-Japan Index Fund (NAr: EPP)
iShares S&P Europe 350 Index Fund (NAr: IEV)
iShares S&P Latin America 40 Index Fund (NAr: ILF)
PowerShares FTSE RAFI Developed Mkts ex-U.S. Port (NAr: PXF)
PowerShares FTSE RAFI Emerging Markets Portfolio (NAr: PXH)
SPDR DJ Euro STOXX 50 ETF (NAr: FEZ)
SPDR S&P BRIC 40 ETF (NAr: BIK)
SPDR S&P Emerging Asia Pacific ETF (NAr: GMF)
SPDR S&P Emerging Middle East and Africa ETF (NAr: GAF)
Vanguard Emerging Markets ETF (NAr: VWO)
Vanguard European ETF (NAr: VGK)
Vanguard Pacific ETF (NAr: VPL)
WisdomTree Emerg Mkts Equity Income Fund (NAr: DEM)
WisdomTree Emerg Mkts SmallCap Dividend Fund (NAr: DGS)
WisdomTree Europe Total Dividend Fund (NAr: DEB)
WisdomTree Pacific ex-Japan Total Dividend Fund (NAr: DND)

Foreign/Country

iShares FTSE/Xinhua China 25 Index Fund (NAr: FXI)
iShares MSCI - Australia (NAr: EWA)
iShares MSCI - Austria (NAr: EWO)
iShares MSCI - Brazil (NAr: EWZ)
iShares MSCI - Canada (NAr: EWC)
iShares MSCI - France (NAr: EWQ)
iShares MSCI - Germany (NAr: EWG)
iShares MSCI - Hong Kong (NAr: EWH)
iShares MSCI - Japan (NAr: EWJ)
iShares MSCI - Malaysia (NAr: EWM)
iShares MSCI - Mexico Investable Market Index Fund (NAr: EWW)
iShares MSCI - Singapore (NAr: EWS)

na = data is not available or is not applicable.

New ETFs and ETFs below \$100 million in assets are included in the on-line article at AAI.com.

NAV Return 3 Yr (%)	Market Return 1 Yr (%)	NAV Return 1 Yr (%)	Index Return 1 Yr (%)	Tracking: Index – NAV Return (%)	RiskGrade 1 Yr Avg	Asset Size (\$ Mil)	Exp Ratio (%)	Index Tracked
na	-28.9	-28.9	-29.3	-0.4	217	431.8	0.35	MSCI All Country World Index
na	-30.4	-29.7	-28.1	1.6	214	314.6	0.40	MSCI EAFE Small Cap Index
-6.5	-25.9	-26.0	-26.4	-0.4	203	602.7	0.40	S&P Global 100 Index
-8.2	-32.8	-33.1	-33.3	-0.2	253	303.8	0.58	International Dividend Achievers Index
na	-29.0	-29.3	-30.5	-1.2	235	238.9	0.34	MSCI ACWI ex USA Index
na	-28.7	-29.0	-29.3	-0.3	206	339.4	0.59	S&P Developed Ex-U.S. Cap < \$2 Bil USD Index
na	-30.0	-30.0	-30.0	0.0	240	3,128.6	0.25	FTSE All World ex-US Index
-8.1	-31.0	-31.6	-31.5	0.1	236	119.3	0.58	WisdomTree DEFA Equity Income Index
-6.6	-30.4	-30.8	-30.4	0.4	230	346.1	0.48	WisdomTree DEFA Index
-7.1	-32.4	-32.9	-33.0	-0.1	248	122.1	0.58	WisdomTree International Div ex-Financials Index
-7.9	-30.1	-30.3	-28.9	1.4	189	309.6	0.58	WisdomTree International SmallCap Dividend Index
5.6	-30.8	-30.8	-30.7	0.1	306	511.0	0.16	BNY Mellon Emerging Markets 50 ADR Index
na	-32.3	-32.4	-31.7	0.7	336	657.8	0.60	BNY Mellon BRIC Select ADR Index
-8.2	-35.5	-36.2	-36.2	0.0	250	560.8	0.52	MSCI EMU Index (European Monetary Union)
na	na	na	na	na	291	820.8	0.74	MSCI All Country Asia ex Japan Index
na	-30.7	-30.9	-30.9	0.0	238	324.0	0.72	MSCI BRIC Index
3.1	-27.0	-27.1	-28.0	-0.9	338	28,448.7	0.72	MSCI Emerging Markets Index
0.6	-27.5	-27.3	-27.6	-0.3	271	2,690.6	0.50	MSCI Pacific Free Ex-Japan Index
-8.4	-33.1	-33.9	-33.7	0.2	235	1,400.1	0.60	S&P Europe 350 Index
11.0	-34.8	-35.0	-35.1	-0.1	341	1,777.9	0.50	S&P Latin America 40 Index
na	-26.7	-26.8	-26.0	0.8	242	105.1	0.75	FTSE RAFI Developed Markets ex-U.S. Index
na	-25.1	-24.3	-22.4	1.9	286	128.9	0.85	FTSE RAFI Emerging Markets Index
-7.1	-32.9	-33.5	-33.7	-0.2	254	164.3	0.29	Dow Jones EURO STOXX 50 Index
na	-30.7	-30.9	-30.8	0.1	356	262.7	0.50	S&P BRIC 40 Index
na	-12.3	-12.7	-11.9	0.8	282	336.5	0.59	S&P Asia Pacific Emerging BMI Index
na	-16.9	-16.6	-16.8	-0.2	266	108.6	0.59	S&P Middle East & Africa BMI Index
2.4	-28.2	-28.2	-28.0	0.2	310	9,496.3	0.27	MSCI Emerging Markets Index
-7.9	-33.5	-33.6	-34.5	-0.9	237	1,740.6	0.18	MSCI Europe Index
-7.2	-24.6	-24.6	-24.5	0.1	214	1,279.5	0.18	MSCI Pacific Index
na	-19.4	-19.1	-18.4	0.7	237	264.0	0.63	WisdomTree Emerging Markets Equity Inc Index
na	-12.2	-11.8	-11.0	0.8	233	104.7	0.63	WisdomTree Emerging Markets SmallCap Div Index
-8.4	-32.8	-32.7	-33.0	-0.3	208	261.6	0.48	WisdomTree Europe Dividend Index
-3.0	-25.8	-25.7	-24.9	0.8	253	102.1	0.48	WisdomTree Pacific ex-Japan Dividend Index
16.5	-11.0	-11.5	-10.8	0.7	373	9,897.2	0.74	FTSE/Xinhua China 25 Index
-1.0	-32.3	-31.8	-32.1	-0.3	294	1,187.3	0.52	MSCI Australia Index
-16.4	-51.3	-51.3	-52.9	-1.6	285	100.3	0.52	MSCI Austria Index
14.4	-37.6	-37.8	-38.2	-0.4	362	8,580.2	0.63	MSCI Brazil Index
-1.5	-34.2	-34.3	-34.2	0.1	238	2,067.9	0.52	MSCI Canada Index
-8.9	-33.4	-34.2	-34.2	0.0	242	134.4	0.52	MSCI France Index
-4.5	-36.9	-37.3	-37.5	-0.2	246	441.6	0.52	MSCI Germany Index
3.7	-15.0	-15.9	-15.3	0.6	267	1,727.2	0.52	MSCI Hong Kong Index
-10.4	-23.3	-23.4	-23.1	0.3	217	5,259.0	0.52	MSCI Japan Index
10.4	-11.0	-11.7	-11.4	0.3	183	420.3	0.52	MSCI Malaysia Index
1.7	-34.0	-34.1	-34.1	0.0	264	549.5	0.52	MSCI Mexico Index
5.4	-23.6	-23.5	-23.8	-0.3	260	1,078.8	0.52	MSCI Singapore Index

Exchange Key: NAr = New York Stock Exchange Arca; M = NASDAQ

[Continued on next page]

sell the stock when you want to.

HOLDERS also do not track an independent index. When a new HOLDER is developed, an industry, sector or group of securities is identified and the underlying stocks to be included in the HOLDER are then selected for inclusion on the basis of objective criteria—such as market capitalization, liquidity, price-earnings ratio or other measures. The selected stocks may be weighted equally or on a modified market-cap basis.

However, once determined, stock composition does not change unless due to a corporate event such as a merger or spin-off. Because the relative weightings of the stocks are a function of market prices, the relative weightings within the HOLDERS will change substantially over time.

The other unique feature of HOLDERS is that you can take delivery of the underlying securities, if you choose, by canceling your HOLDER. To cancel, you simply instruct your broker to deliver your HOLDERS to the HOLDERS trustee and pay a cancellation fee. The trustee will transmit ownership of the underlying shares to your account. Canceling a HOLDER is not a taxable event.

Several exchange-traded funds are designed to track the price of a commodity, such as gold (iShares COMEX Gold Trust and SPDR Gold Shares), or currency (the CurrencyShares ETFs). These are organized as grantor trusts, where the trusts issue shares representing interests in their net assets, which tend to be the physical holdings of the asset. These funds are not registered under the Investment Company Act, which means they are regulated differently than most other exchange-traded funds.

One important implication of the trust structure concerns taxes: Trust owners are treated as if they own a corresponding share in the underlying asset. In the case of the gold trusts, the asset is taxed as a collectible. Currently, gains from collectibles held over one year are taxed at a maximum rate of 28%, rather than the lower long-term capital gains treatment that is afforded

to financial securities.

Other Structures

Several funds do not fit into any of the above structures because of their use of futures contracts to track their underlying assets. The United States Oil Fund and the United States Natural Gas Fund are designed to track the price movements of crude oil and natural gas, with assets that will consist primarily of futures contracts and U.S. Treasuries. The PowerShares DB Commodity Index Tracking Fund is designed to track commodity pools, with assets that will consist of futures contracts and U.S. Treasuries. Like the gold trusts, these funds are not registered under the Investment Company Act, which means they are regulated differently than most other exchange-traded funds and have additional tax implications.

Trading ETFs

Because ETFs trade like stocks, you need to know their trading characteristics.

Pricing Considerations

Exchange-traded funds have pricing symbols for three different variables:

- **A stock price**—the price at which trading occurs.
 - **An official closing net asset value**—
- (continued on page 26)

Table 1. Stock-Based Exchange-Traded Funds (con't)

Name (Exchange: Ticker)
Foreign/Country (con't)
iShares MSCI - South Africa (NAR: EZA)
iShares MSCI - South Korea (NAR: EWY)
iShares MSCI - Spain (NAR: EWP)
iShares MSCI - Sweden (NAR: EWD)
iShares MSCI - Switzerland (NAR: EWL)
iShares MSCI - Taiwan (NAR: EWT)
iShares MSCI - United Kingdom (NAR: EWU)
iShares MSCI Chile Investable Market Index Fund (NAR: ECH)
iShares MSCI Turkey Investable Market Index Fund (NAR: TUR)
iShares S&P/TOPIX 150 Index Fund (NAR: ITF)
Market Vectors Russia ETF (NAR: RSX)
PowerShares Golden Dragon Halter USX China Port (NAR: PGJ)
PowerShares India Portfolio (NAR: PIN)
SPDR S&P China ETF (NAR: GXC)
WisdomTree India Earnings Fund (NAR: EPI)
Foreign/Sector
Claymore/MAC Global Solar Energy Index (NAR: TAN)
Claymore/S&P Global Water Index (NAR: CGW)
iShares FTSE EPRA/NAREIT Dvlpd Real Estate ex-U.S. Index Fund (M: IFGL)
iShares S&P Global Consumer Staples Sector Index Fd (NAR: KXI)
iShares S&P Global Energy Sector Index Fund (NAR: IXC)
iShares S&P Global Financials Sector Index Fund (NAR: IXG)
iShares S&P Global Healthcare Sector Index Fund (NAR: IXJ)
iShares S&P Global Infrastructure Index Fund (NAR: IGF)
iShares S&P Global Materials Sector Index Fund (NAR: MXI)
iShares S&P Global Technology Sector Index Fund (NAR: IXN)
iShares S&P Global Telecom Sector Index Fund (NAR: IXP)
iShares S&P Global Utilities Sector Index Fund (NAR: JXI)
Market Vectors Global Alternative Energy ETF (NAR: GEX)
PowerShares Cleantech Portfolio (NAR: PZD)
PowerShares Global Clean Energy Portfolio (NAR: PBD)
PowerShares Global Water Portfolio (NAR: PIO)
SPDR Dow Jones International Real Estate ETF (NAR: RWX)
Currency
CurrencyShares Australian Dollar Trust (NAR: FXA)
CurrencyShares British Pound Sterling Trust (NAR: FXB)
CurrencyShares Canadian Dollar Trust (NAR: FXC)
CurrencyShares Euro Trust (NAR: FXE)
CurrencyShares Japanese Yen Trust (NAR: FXY)
CurrencyShares Swiss Franc Trust (NAR: FXF)
PowerShares DB G10 Currency Harvest Fund (NAR: DBV)
PowerShares DB US Dollar Bearish Fund (NAR: UDN)
PowerShares DB US Dollar Bullish Fund (NAR: UUP)
WisdomTree Dreyfus Chinese Yuan Fund (NAR: CYB)

na = data is not available or is not applicable.
Exchange Key: NAR = New York Stock Exchange Arca; M = NASDAQ

New ETFs and ETFs below \$100 million in assets are included in the on-line article at AAI.com.

NAV Return 3 Yr (%)	Market Return 1 Yr (%)	NAV Return 1 Yr (%)	Index Return 1 Yr (%)	Tracking: Index – NAV Return (%)	RiskGrade 1 Yr Avg	Asset Size (\$ Mil)	Exp Ratio (%)	Index Tracked
2.4	-12.9	-13.5	-11.8	1.7	339	389.4	0.63	MSCI South Africa Index
-6.8	-31.1	-30.9	-30.6	0.3	347	1,869.4	0.63	MSCI South Korea Index
1.8	-20.9	-22.0	-23.4	-1.4	251	185.7	0.52	MSCI Spain Index
-6.4	-25.7	-26.7	-26.9	-0.2	317	128.4	0.51	MSCI Sweden Index
-4.4	-24.2	-25.3	-25.9	-0.6	188	222.3	0.52	MSCI Switzerland Index
-3.5	-22.5	-23.4	-22.9	0.5	277	2,785.6	0.73	MSCI Taiwan Index
-10.5	-33.8	-34.4	-34.2	0.2	248	642.0	0.52	MSCI United Kingdom Index
na	0.3	2.8	2.4	-0.4	223	319.4	0.63	MSCI Chile Investable Market Index
na	-14.6	-13.9	-14.3	-0.4	361	143.1	0.63	MSCI Turkey Investable Market Index
-10.7	-25.2	-25.2	-24.9	0.3	199	122.6	0.50	S&P/Tokyo Stock Price Index 150 Index
na	-60.0	-60.1	-60.8	-0.7	446	727.0	0.62	DAXglobal Russia+ Index
10.1	-14.8	-14.9	-15.1	-0.2	298	382.8	0.69	Halter USX China Index
na	-5.9	-5.8	-3.8	2.0	321	176.1	0.78	Indus India Index
na	-7.6	-8.1	-7.3	0.8	338	352.4	0.59	S&P China BMI Index
na	-4.3	-5.2	-3.5	1.7	307	384.5	0.88	WisdomTree India Earnings Index
na	-62.9	-63.2	-61.8	1.4	458	193.1	0.65	MAC Global Solar Energy Index
na	-27.5	-28.2	-26.9	1.3	215	152.4	0.70	S&P Global Water Index
na	-29.5	-29.8	-30.4	-0.6	242	221.5	0.48	FTSE EPRA/NAREIT Global Real Estate ex-U.S. Index
na	-13.0	-13.3	-13.5	-0.2	148	261.4	0.48	S&P Global Consumer Staples Sector Index
-2.5	-38.2	-38.6	-38.8	-0.2	271	795.2	0.48	S&P Global Energy Sector Index
-19.3	-35.6	-36.0	-36.2	-0.2	325	223.6	0.48	S&P Global Financials Sector Index
-4.7	-14.5	-14.9	-15.1	-0.2	152	450.0	0.48	S&P Global Healthcare Sector Index
na	-31.8	-31.8	-32.2	-0.4	213	286.2	0.48	S&P Global Infrastructure Index
na	-42.7	-42.9	-42.9	0.0	279	493.2	0.48	S&P Global Materials Sector Index
-3.7	-21.1	-21.4	-21.7	-0.3	195	267.3	0.48	S&P Global Info Technology Sector Index
0.6	-21.5	-22.1	-22.5	-0.4	192	237.5	0.48	S&P Global Telecom Sector Index
na	-30.6	-31.2	-31.6	-0.4	190	145.1	0.48	S&P Global Utilities Sector Index
na	-52.1	-51.9	-52.2	-0.3	359	232.0	0.62	Ardour Global Index (Extra Liquid)
na	-38.1	-37.6	-37.6	0.0	271	121.7	0.69	Cleantech Index
na	-45.7	-45.9	-43.9	2.0	309	169.0	0.75	WilderHill New Energy Global Innovation Index
na	-30.4	-30.3	-29.6	0.7	231	219.1	0.75	Palisades Global Water Index
na	-35.8	-36.3	-36.3	0.0	221	616.4	0.59	Dow Jones Global ex-U.S. Sel Real Estate Sec Index
8.1	-12.6	-12.0	na	na	135	546.6	0.40	Australian dollar net of trust expenses
-0.3	-16.0	-15.9	na	na	82	156.3	0.40	British pound net of trust expenses
1.1	-11.5	-11.6	na	na	81	451.5	0.40	Canadian dollar net of trust expenses
5.9	-9.2	-9.3	na	na	79	603.2	0.40	euro net of trust expenses
na	9.9	9.6	na	na	79	520.6	0.40	Japanese yen net of trust expenses
4.9	-5.8	-6.0	na	na	80	348.5	0.40	Swiss franc net of trust expenses
na	-19.2	-19.2	-18.9	0.3	122	322.1	0.75	Deutsche Bank G10 Currency Future Harvest Index
na	-8.3	-8.5	-8.4	0.1	67	283.6	0.50	Deutsche Bank Short US Dollar Index
na	7.1	6.9	8.2	1.3	69	215.1	0.50	Deutsche Bank Long US Dollar Index
na	1.2	1.4	3.9	2.5	33	126.7	0.45	Money market rates in China for foreign investors

What You Need to Know About Fixed-Income ETFs

This year's Guide features 37 existing ETFs that track bond indexes, plus 15 new bond ETFs (see on-line version).

Bond ETFs work like their stock counterparts. Each fund has both a trading symbol and an IOPV (indicative optimized portfolio value) ticker. The IOPV approximates the fund's net asset value and is updated every 15 seconds throughout the trading day. By comparing the IOPV and real-time stock quote for a bond ETF, you can determine any discounts or premiums in share price to net asset value, although creation and redemption of the shares by large institutional traders helps keep these to a minimum.

You can also determine a bond ETF's end-of-day discount or premium based upon its net asset value (computed daily at the market close) and last traded price. This information can be found most readily at the sponsor's Web site (see Hot Links on page 27). Keep in mind, however, that bond quote and price reporting is less well-developed than stock quote and price reporting, making the IOPV and net asset value less reliable for bond ETFs. Fortunately, bond quotes and price data are improving.

As with bonds themselves, the prices of bond ETFs vary inversely with the level of interest rates—i.e., rising rates lead to falling fixed-income security prices and vice versa.

Like most bond funds, fixed-income ETFs do not pay a fixed rate of return and do not guarantee that your investment will be recouped when you cash out. Bond ETFs pay monthly dividends in cash. Individuals interested

in reinvesting their dividends should contact their brokers for further information, including any fees.

Bond ETFs offer benefits similar to those of stock ETFs, such as low cost, diversification, the ability to trade shares throughout the day, and the ability to short a portfolio.

Many bond ETFs feature rock-bottom 0.15% expense ratios (or lower)—a major plus for fixed-income portfolios, particularly during times of low returns. The highest expense ratios are found with the foreign fixed-income funds.

Tax efficiency, an advantage for stock ETFs, would not be a relevant consideration with bond ETFs because of their income orientation. Like Treasury securities themselves, Treasury bond ETFs generate income that is subject to

Table 2. Fixed-Income Exchange-Traded Funds

Name (Exchange: Ticker)	NAV Return 3 Yr (%)
iShares Barclays 10-20 Year Treasury Bond Fund (NAR: TLH)	na
iShares Barclays 1-3 Year Credit Bond Fund (NAR: CSJ)	na
iShares Barclays 1-3 Year Treasury Bond Fund (NAR: SHY)	5.5
iShares Barclays 20+ Year Treasury Bond Fund (NAR: TLT)	8.5
iShares Barclays 3-7 Year Treasury Bond Fund (NAR: IEI)	na
iShares Barclays 7-10 Year Treasury Bond Fund (NAR: IEF)	8.5
iShares Barclays Aggregate Bond Fund (NAR: AGG)	6.3
iShares Barclays Credit Bond Fund (NAR: CFT)	na
iShares Barclays Government/Credit Bond Fund (NAR: GBF)	na
iShares Barclays Intermediate Credit Bond Fund (NAR: CIU)	na
iShares Barclays Intermediate Gov't/Credit Bond Fund (NAR: GVI)	na
iShares Barclays MBS Bond Fund (NAR: MBB)	na
iShares Barclays Short Treasury Bond Fund (NAR: SHV)	na
iShares Barclays TIPS Bond Fund (NAR: TIP)	5.6
iShares iBoxx \$ High Yield Corporate Bond Fund (NAR: HYG)	na
iShares iBoxx \$ Investment Grade Corporate Bond Fund (NAR: LQD)	4.1
PowerShares High Yield Corporate Bond Portfolio (NAR: PHB)	na
PowerShares Preferred Portfolio (NAR: PGX)	na
SPDR Barclays Capital 1-3 Month T-Bill ETF (NAR: BIL)	na
SPDR Barclays Capital Aggregate Bond ETF (NAR: LAG)	na
SPDR Barclays Capital High Yield Bond ETF (NAR: JNK)	na
SPDR Barclays Capital Intermediate Term Treasury ETF (NAR: ITE)	na
SPDR Barclays Capital TIPS ETF (NAR: IPE)	na
Vanguard Intermediate-Term Bond ETF (NAR: BIV)	na
Vanguard Long-Term Bond ETF (NAR: BLV)	na
Vanguard Short-Term Bond ETF (NAR: BSV)	na
Vanguard Total Bond Market ETF (NAR: BND)	na
Municipal Fixed-Income	
iShares S&P California AMT-Free Municipal Bond Fund (NAR: CMF)	na
iShares S&P National AMT-Free Municipal Bond Fund (NAR: MUB)	na
PowerShares Insured National Municipal Bond Portfolio (NAR: PZA)	na
PowerShares VRDO Tax-Free Weekly Portfolio (NAR: PVI)	na
SPDR Barclays Capital Municipal Bond ETF (NAR: TFI)	na
SPDR Barclays Capital Short Term Municipal Bond ETF (NAR: SHM)	na
Foreign Fixed-Income	
iShares JPMorgan USD Emerging Markets Bond Fund (NAR: EMB)	na
PowerShares Emerging Markets Sovereign Debt Portfolio (NAR: PCY)	na
SPDR Barclays Capital International Treasury Bond ETF (NAR: BWX)	na
SPDR DB Int'l Gov't Inflation-Protected Bond ETF (NAR: WIP)	na

Exchange Key: NAR = New York Stock Exchange Arca

*Data as of 9/2/2009.

na = data is not available or is not applicable.

Sources: Fund sponsor and Morningstar, Inc.

NAV Return 3 Yr (%): The three-year total return (annualized, dividends reinvested) based on a fund's NAV, through June 30, 2009. **Market Return 1 Yr (%)**: The one-year total return (dividends reinvested) based on a fund's

federal income tax but should be exempt from state and local income taxes if the fund sponsor and the shareholder meet the state's administrative requirements.

A few of the bond ETFs replicate

New ETFs and ETFs below \$100 million in assets are included in the on-line article at AAI.com.

Market Return 1 Yr (%)	NAV Return 1 Yr (%)	Index Return 1 Yr (%)	Tracking: Index – NAV Return (%)	Weighted Avg Mat (Yrs)	Dividend Yield (%)	Asset Size (\$ Mil)	Exp Ratio (%)	Index Tracked
7.5	7.8	7.6	-0.2	14.6	3.9	239.5	0.15	Barclays 10-20 Year Treasury Bond Index
5.7	4.3	5.1	0.8	2.0	4.2	2,351.3	0.20	Barclays 1-3 Year Credit Bond Index
4.2	4.2	4.5	0.3	2.0	3.2	7,044.4	0.15	Barclays 1-3 Year Treasury Bond Index
6.4	6.7	6.8	0.1	26.6	4.1	2,242.5	0.15	Barclays 20+ Year Treasury Bond Index
6.6	6.6	7.1	0.5	4.9	2.8	808.1	0.15	Barclays 3-7 Year Treasury Bond Index
7.1	7.2	7.5	0.3	8.6	3.9	2,638.2	0.15	Barclays 7-10 Year Treasury Bond Index
6.2	5.9	6.0	0.1	6.0	4.4	9,753.4	0.24	Barclays U.S. Aggregate Bond Index
4.7	3.3	4.0	0.7	9.5	5.2	305.5	0.20	Barclays U.S. Credit Bond Index
5.6	5.5	5.2	-0.3	7.5	4.2	113.1	0.20	Barclays U.S. Government/Credit Bond Index
5.6	3.7	4.2	0.5	5.2	4.8	1,265.8	0.20	Barclays U.S. Intermediate Credit Bond Index
5.3	5.3	5.2	-0.1	4.4	4.0	341.6	0.20	Barclays U.S. Intermediate Government/Credit Bond Index
8.1	8.2	9.3	1.1	3.7	3.9	1,516.2	0.34	Barclays U.S. MBS Index
1.3	1.3	1.5	0.2	0.4	1.3	1,950.2	0.15	Barclays U.S. Short Treasury Bond Index
-1.3	-1.2	-1.1	0.1	9.2	4.7	14,163.4	0.20	Barclays U.S. TIPS Index
-5.5	-7.5	-5.1	2.4	6.2	10.5	3,343.0	0.50	iBoxx \$ Liquid High Yield Index
4.8	3.4	5.0	1.6	12.3	5.6	12,005.9	0.15	iBoxx \$ Liquid Investment Grade Index
-19.2	-19.2	-13.2	6.0	7.3	10.3	110.3	0.50	Wachovia High Yield Bond Index
-21.6	-20.9	-21.2	-0.3	39.1	8.8	528.7	0.50	Merrill Lynch Fixed Rate Preferred Securities Index
0.8	0.7	0.7	0.0	0.2*	0.1*	985.9	0.13	Barclays 1-3 Month Treasury Bill Index
7.0	6.9	6.0	-0.9	6.7*	3.2*	196.2	0.18	Barclays U.S. Aggregate Index
-7.7	-10.1	-4.0	6.1	7.0*	10.9*	1,863.0	0.40	Barclays High Yield Very Liquid Index
6.3	6.2	6.1	-0.1	4.3*	1.9*	143.1	0.13	Barclays Intermediate U.S. Treasury Index
-1.3	-1.1	-1.1	0.0	3.0*	1.2*	288.5	0.18	Barclays U.S. TIPS Index
5.5	5.5	5.1	-0.4	7.6	4.8	852.2	0.14	Barclays U.S. 5-10 Year Government/Credit Index
5.3	5.2	5.3	0.1	21.5	5.6	140.9	0.14	Barclays U.S. Long Government/Credit Index
5.7	5.6	5.3	-0.3	2.8	2.3	1,904.5	0.14	Barclays U.S. 1-5 Year Government/Credit Index
6.6	6.2	6.0	-0.2	6.6	4.1	4,435.2	0.14	Barclays U.S. Aggregate Bond Index
3.0	2.8	0.6	-2.2	13.2	3.8	151.8	0.25	S&P California AMT-Free Municipal Bond Index
3.9	3.7	3.1	-0.6	10.6	3.7	1,261.7	0.25	S&P National AMT-Free Municipal Bond Index
-0.7	-0.4	1.4	1.8	27.5	5.1	341.8	0.28	Merrill Lynch Nat'l Insur LT Core Muni Securities Index
2.6	2.5	1.9	-0.6	21.5	1.4	646.4	0.25	Thomson Municipal Market Data VRDO Index
5.6	5.0	5.6	0.6	8.2*	3.4*	579.5	0.30	Barclays Municipal Managed Money Index
6.3	6.2	6.4	0.2	11.2*	1.8*	501.8	0.20	Barclays Managed Money Municipal Short Term Index
0.9	1.3	1.7	0.4	12.3	6.0	268.4	0.60	JP Morgan EMBI Global Core Index
2.9	2.6	3.7	1.1	14.3	7.4	202.3	0.50	DB Emerging Market USD Liquid Balanced Index
1.1	0.5	1.5	1.0	8.1*	2.3*	1,083.8	0.50	Barclays Global Treasury Ex-U.S. Capped Index
-10.9	-11.3	-10.4	0.9	1.8*	1.1*	394.5	0.50	DB Global Gov't ex-U.S. Inflation-Lnkd Bond Capped Idx

market price, through June 30, 2009. **NAV Return 1 Yr (%)**: The one-year total return (dividends reinvested) based on a fund's net asset value, through June 30, 2009. **Index Return 1 Yr (%)**: The one-year total return (dividends reinvested) of the underlying index, through June 30, 2009. **Tracking: Index – NAV Return (%)**: The difference between the one-year underlying index return and the fund NAV return. A negative sign indicates the fund's NAV return outperformed the index. **Weighted Average Maturity (Yrs)**: Average maturity of the bonds based on their percentage holding in the fund as of June 30, 2009. **Dividend Yield (%)**: Yield net of expenses for the most recent 30-day period as of June 30, 2009, unless footnoted. **Asset Size (\$ Mil)**: Total assets in millions of dollars. **Expense Ratio (%)**: The expense ratio for each fund. **Index Tracked**: The underlying index that the fund is structured to track.

their underlying target indexes, but many other bond ETFs use optimized sampling techniques. Because bonds have a given lifespan before they mature, a bond ETF portfolio needs to be recon-

stituted frequently, reflecting changes in its target index. This process could lead to some capital gains distributions.

You could generally expect a fixed-income ETF to have a higher portfolio

turnover rate than the broad-based equity ETFs that track benchmarks such as the S&P 500 index, Dow Jones industrial average, and the Wilshire 5000 index. ▲

with a few exceptions, this quantity is computed as of 4:00 p.m. Eastern time each business day.

- **An estimated intraday net asset value**—this number is updated every 15 seconds based on the real-time prices of each of a fund's underlying holdings. It is called "intraday value" for some funds while others call it the "indicative optimized portfolio value."

Ticker symbols for these funds, along with considerable other trading, performance and structural details, can be found in the individual fund "tear sheets" at the Web site of the exchange on which the fund trades.

Premiums and Discounts to NAV

While premiums and discounts are generally not a major issue, they may be larger in special instances, particularly when the underlying basket of securities is less liquid.

Liquidity and Trading

Liquidity is the ease with which an investment can be bought or sold for a price at or very close to the recent quote.

Some ETFs are based on indexes with holdings that are less liquid. This affects the arbitrage process and thus the creation and redemption of ETF shares by institutional traders, leading to wider spreads. The liquidity of an ETF is thus primarily based on the liquidity of the underlying securities in the ETF's basket.

What the Listings Show

Exchange & Ticker Symbol

The exchange and ticker symbol are provided next to the fund name. The ticker symbol that is given is for the stock price at which trading occurs. This is the symbol you would use when buying or selling shares.

Performance Information

Market Return: The one-year return net of expenses for each fund based on its market price, through June 30, 2009. This is the actual return you would have received if you had invested in the fund over that one-year time period. Keep in mind, however, that it does not include brokerage commissions or spread costs you would incur when buying or selling the shares.

NAV Returns: The three-year annualized return and one-year return net of expenses for each fund based on its net asset value, through June 30, 2009. This provides an indication of how the underlying portfolio of stocks performed over the time period. Funds in which the market return is closer to the NAV return trade with lower discounts and premiums.

Index Return: The one-year return through June 30, 2009, of the underlying index tracked by the fund.

Tracking Index – NAV Return: The difference between the one-year index return and the fund's one-year NAV return, an indication of how closely the ETF tracked its underlying index over the time period. Most funds tend to underperform the index, primarily due to expenses. Other factors may also lead to tracking differences. Note that a negative sign indicates a fund outperformed the index.

Risk

RiskGrade: A risk measure that relates the volatility of a particular portfolio to a portfolio of all stocks worldwide during normal market conditions. The base worldwide stock portfolio has a RiskGrade of 100; a portfolio with a RiskGrade of 77 implies that it has a risk 77% as high as the average risk of the worldwide stock

portfolio. (For more information, the RiskGrades Web site at www.riskgrades.com provides the mathematical details of the approach.)

Size

Asset Size: The net assets of the fund presented in millions of dollars. This provides an indication of the exchange-traded fund's size, popularity and flexibility.

Expenses

Expense Ratio: The current reported expense ratio for each fund. Keep in mind that these expenses are at the fund level. To purchase or sell shares, you will incur brokerage commissions.

Index Tracked

The underlying index (or other asset) that the fund is structured to track.

ETFs Included

The printed version of our listing that appears in this issue of the *AAll Journal* includes all ETFs that have over \$100 million in net assets, and that have existed for over one year.

Leveraged and inverse ETFs are not included in this printed version; they appear in the on-line version only. Similarly, HOLDRS are included in the on-line version of the table under the appropriate sector.

The on-line version of AAll's Guide to ETFs lists all exchange-traded funds, including those that have under \$100 million in assets, HOLDRS, leveraged and inverse funds, and those that are new.

All ETFs are listed on-line in the appropriate category. In addition, the on-line version has expanded information on each ETF, including recent trading statistics and the legal structure of the fund. ▲

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