

# The Top ETFs Over Three Years Represent an Eclectic Group

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## Article Highlights

- The top exchange-traded funds (ETFs) invest in precious metals, retail, health care, and mid-cap growth companies.
- In addition to performance, consider the fund's strategy, its expense ratio and your diversification needs.
- Be sure you fully understand the index that an ETF is designed to follow. Similar-sounding indexes can have different return characteristics.

**T**he best-performing exchange-traded funds (ETFs) of the past three years would comprise an eclectic mix if combined into a single portfolio. Precious metals, retailers, health care companies and a mid-cap growth index would all be represented.

I compiled the list as an experiment to see what a long-term, top-performing ETF portfolio would look like. Each March, we publish a list of the mutual funds with the best five-year performance (see “The Top Funds Over Five Years: Gold, Emerging Markets & Diversification Lead” in the March 2011 *AII Journal*). Given the growth in ETFs, I thought there would be interest in a similar list involving exchange-traded funds.

Keep in mind that this is not a direct comparison. Most ETFs have not been around for five full years, requiring the use of three-year performance results instead. There is also the issue of active versus passive management. Many mutual funds have managers who not only select the investments to hold, but also determine when to buy and sell those investments. Most ETFs, conversely, are designed to track an index, therefore eliminating the performance advantage attributable to a good fund manager.

On the other hand, mutual fund performance is often influenced by both broad market and category-specific trends. ETFs are also influenced by these same trends. Thus, there is some overlap between performance of mutual fund and



ETF categories. Furthermore, my expectation is that more actively managed ETFs will be introduced over the next several years. Thus, it is interesting to start looking at the long-term performance of ETFs.

However, fund analysis involves more than just looking at total return. Performance relative to a fund's peers, the composition of the fund, the strategy used, expenses and size are all important factors for ETFs. Proper diversification is also very important; you need to seek out the fund or security that best fulfills your diversification needs.

## Which Funds Were Included

I restricted the list of ETFs to those with three years of annual return data and a minimum of \$200 million in assets. Funds that use leverage to provide double or triple the return of their underlying index or that follow inverse strategies (they rise in price when the underlying index falls) were excluded from consideration. These funds are designed to be held for short periods of time, not several years.

Table 1 on pages 28 through 31 shows the top ETFs by category. Three-year performance was calculated through June 30, 2011, to match the statistics displayed in “The Individual Investor's Guide to Exchange-Traded Funds 2011,” which was published in the August 2011 *AII Journal*.

In addition to three-year performance, returns for the year to date, the last 12 months and each of the past five years (where available) are displayed, along with returns for the most recent bull market (March 1, 2009, through April

Table 1. Top ETFs Over Three Years

30, 2011) and bear market (November 1, 2007, through February 28, 2009). Returns that are in the top 25% of all ETFs within their investment category are shown in boldface. Other pertinent information is presented, including yield, tax-cost ratio, risk, portfolio composition and expenses. Risk numbers that are in the lowest 25% of all ETFs within the investment category are shown in boldface.

Some of the categories used here combine two or more separate categories from last issue's ETF Guide. This was done in cases where there were not a significant number of qualifying funds and the individual categories were similar.

### The Top 10 ETFs

The 10 overall best-performing ETFs are shown first. iShares Silver Trust (SLV) led all ETFs with a three-year annualized return of 25.1%. This exchange-traded fund invests in a trust that holds silver bullion as its primary asset. Silver prices have surged as more investors added precious metal investments to their portfolios. Some investors are also attracted to silver because it is viewed as a cheaper alternative to gold and because it has more industrial applications. Changes in the spread between silver and gold valuations may have also played a role.

Gold is also represented, with PowerShares DB Precious Metals (DBP) and iShares Gold Trust (IAU) both making the top 10 list. PowerShares DB Precious Metals invests in gold and silver, while iShares Gold Trust invests solely in gold. The two funds are very different, however. iShares Gold Trust invests in a trust that holds gold bullion—a physical asset. ETFs that hold bullion are subject to the higher collectibles tax instead of the lower long-term capital gains tax. PowerShares DB Precious Metals invests in gold

| Index<br>Enhanced<br>ETN          | ETF Name (Ticker)                              | Total Return (%) |      |      |        |        |      |          |
|-----------------------------------|------------------------------------------------|------------------|------|------|--------|--------|------|----------|
|                                   |                                                | YTD              | 2010 | 2009 | 2008   | 2007   | 2006 | 12-Month |
| Overall Three-Year Top Performers |                                                |                  |      |      |        |        |      |          |
| I                                 | iShares Silver Trust (SLV)                     | 14.1             | 79.4 | 56.6 | (27.2) | 13.9   | —    | 86.0     |
| I                                 | First Trust NYSE Arca Biotech Index (FBT)      | 12.2             | 36.9 | 44.9 | (18.3) | 3.7    | —    | 41.9     |
| I                                 | SPDR S&P Retail (XRT)                          | 11.0             | 37.1 | 77.6 | (38.8) | (16.2) | —    | 51.5     |
| I                                 | iShares MSCI Chile Investable Mkt Idx (ECH)    | (4.0)            | 45.7 | 85.2 | (37.0) | —      | —    | 34.8     |
| I                                 | SPDR S&P Pharmaceuticals (XPH)                 | 11.1             | 22.3 | 28.1 | (9.2)  | (1.4)  | —    | 33.4     |
| I                                 | First Trust Health Care AlphaDEX (FXH)         | 16.6             | 19.0 | 51.2 | (29.3) | —      | —    | 37.2     |
| I                                 | PowerShares DB Precious Metals (DBP)           | 6.4              | 37.7 | 26.6 | (3.0)  | —      | —    | 30.3     |
| I                                 | First Trust Dow Jones Internet Index (FDN)     | 5.8              | 36.7 | 79.2 | (44.0) | 11.2   | —    | 51.8     |
| I                                 | Rydex S&P Midcap 400 Pure Growth (RFG)         | 13.3             | 34.7 | 59.8 | (35.5) | 10.0   | —    | 56.4     |
| I                                 | iShares Gold Trust (IAU)                       | 7.0              | 27.9 | 23.5 | 5.4    | 30.9   | 22.4 | 20.6     |
| Large-Cap Stock ETFs              |                                                |                  |      |      |        |        |      |          |
| I                                 | Rydex S&P 500 Pure Growth (RPG)                | 10.0             | 27.1 | 50.2 | (39.1) | 6.3    | —    | 49.1     |
| I                                 | SPDR S&P Dividend (SDY)                        | 5.7              | 16.4 | 19.1 | (22.9) | (6.5)  | 17.7 | 23.8     |
| I                                 | WisdomTree Dividend ex-Financials (DTN)        | 8.9              | 21.4 | 26.0 | (36.6) | 0.1    | —    | 35.6     |
| I                                 | PowerShares QQQ (QQQ)                          | 5.1              | 19.9 | 54.4 | (41.7) | 19.1   | 7.0  | 34.4     |
| I                                 | Rydex S&P Equal Weight (RSP)                   | 7.8              | 21.3 | 45.0 | (40.4) | 1.1    | 15.3 | 35.7     |
| Mid-Cap Stock ETFs                |                                                |                  |      |      |        |        |      |          |
| I                                 | Rydex S&P Midcap 400 Pure Growth (RFG)         | 13.3             | 34.7 | 59.8 | (35.5) | 10.0   | —    | 56.4     |
| I                                 | First Trust Mid Cap Core AlphaDEX (FNX)        | 9.7              | 27.0 | 47.4 | (36.8) | —      | —    | 40.4     |
| I                                 | Rydex S&P Midcap 400 Pure Value (RFV)          | 3.7              | 22.5 | 58.4 | (42.8) | (3.2)  | —    | 31.6     |
| I                                 | WisdomTree MidCap Dividend (DON)               | 8.6              | 21.7 | 32.0 | (32.6) | (5.5)  | —    | 32.9     |
| I                                 | iShares S&P MidCap 400 Growth Index (IJK)      | 10.6             | 30.3 | 40.9 | (37.6) | 13.3   | 5.8  | 45.2     |
| Small-Cap Stock ETFs              |                                                |                  |      |      |        |        |      |          |
| I                                 | PowerShares FTSE RAFI US 1500 Small-Mid (PRFZ) | 5.5              | 29.1 | 56.3 | (38.5) | (1.1)  | —    | 37.1     |
| I                                 | Rydex S&P SmallCap 600 Pure Value (RZV)        | 1.2              | 28.1 | 67.0 | (42.4) | (18.8) | —    | 30.8     |
| I                                 | iShares Morningstar Small Value Index (JKL)    | 4.8              | 25.6 | 39.9 | (31.7) | (8.4)  | 19.6 | 32.3     |
| I                                 | SPDR S&P 600 Small Cap Growth ETF (SLYG)       | 11.2             | 30.2 | 46.8 | (40.9) | 7.8    | 13.4 | 47.1     |
| I                                 | Vanguard Small Cap Growth ETF (VB K)           | 10.2             | 30.9 | 42.0 | (40.0) | 9.7    | 12.0 | 46.6     |
| Sector Stock ETFs                 |                                                |                  |      |      |        |        |      |          |
| I                                 | First Trust NYSE Arca Biotech Index (FBT)      | 12.2             | 36.9 | 44.9 | (18.3) | 3.7    | —    | 41.9     |
| I                                 | SPDR S&P Retail (XRT)                          | 11.0             | 37.1 | 77.6 | (38.8) | (16.2) | —    | 51.5     |
| I                                 | SPDR S&P Pharmaceuticals (XPH)                 | 11.1             | 22.3 | 28.1 | (9.2)  | (1.4)  | —    | 33.4     |
| I                                 | First Trust Health Care AlphaDEX (FXH)         | 16.6             | 19.0 | 51.2 | (29.3) | —      | —    | 37.2     |
| I                                 | First Trust Dow Jones Internet Index (FDN)     | 5.8              | 36.7 | 79.2 | (44.0) | 11.2   | —    | 51.8     |
| I                                 | iShares Dow Jones US Pharmaceuticals (IHE)     | 15.5             | 12.6 | 30.4 | (15.1) | 2.2    | —    | 36.1     |
| I                                 | First Trust Consumer Disc AlphaDEX (FXD)       | 11.0             | 32.0 | 57.1 | (42.9) | —      | —    | 49.2     |
| I                                 | Vanguard Consumer Discretionary ETF (VCR)      | 8.1              | 30.6 | 46.5 | (38.0) | (11.5) | 16.5 | 42.0     |
| I                                 | Consumer Discret Select Sector SPDR (XLY)      | 8.2              | 27.4 | 41.2 | (33.4) | (13.4) | 18.4 | 40.1     |
| I                                 | iShares Dow Jones US Healthcare Provider (IHF) | 21.0             | 11.3 | 36.0 | (43.7) | 18.3   | —    | 42.2     |
| Commodities ETFs                  |                                                |                  |      |      |        |        |      |          |
| I                                 | iShares Silver Trust (SLV)                     | 14.1             | 79.4 | 56.6 | (27.2) | 13.9   | —    | 86.0     |
| I                                 | PowerShares DB Precious Metals (DBP)           | 6.4              | 37.7 | 26.6 | (3.0)  | —      | —    | 30.3     |
| I                                 | iShares Gold Trust (IAU)                       | 7.0              | 27.9 | 23.5 | 5.4    | 30.9   | 22.4 | 20.6     |
| I                                 | SPDR Gold Shares (GLD)                         | 6.5              | 27.3 | 27.1 | 3.0    | 31.1   | 23.4 | 20.5     |
| I                                 | PowerShares DB Gold (DGL)                      | 4.9              | 27.8 | 22.0 | 2.8    | —      | —    | 18.8     |
| Global Stock ETFs                 |                                                |                  |      |      |        |        |      |          |
| I                                 | Vanguard Total World Stock Index ETF (VT)      | 4.8              | 13.0 | 33.6 | —      | —      | —    | 31.1     |
| Foreign Stock ETFs                |                                                |                  |      |      |        |        |      |          |
| I                                 | iShares Dow Jones Intl Select Div Idx (IDV)    | 8.7              | 10.4 | 69.4 | (54.4) | —      | —    | 39.3     |
| I                                 | SPDR S&P International Dividend (DWX)          | 8.4              | 7.1  | 65.5 | —      | —      | —    | 34.2     |
| I                                 | SPDR S&P International Small Cap (GWX)         | 3.0              | 24.5 | 41.5 | (45.4) | —      | —    | 33.4     |
| I                                 | iShares MSCI EAFE Small Cap Index (SCZ)        | 3.9              | 22.3 | 46.3 | (47.9) | —      | —    | 36.2     |
| Europe Stock ETFs                 |                                                |                  |      |      |        |        |      |          |
| I                                 | iShares MSCI Sweden Index (EWD)                | 5.6              | 33.8 | 63.7 | (49.5) | 0.4    | 43.3 | 41.1     |

| Total Return (%) |                |              |               | Yield (%) | Tax-Cost Ratio (%) | Risk Index  |           | Total Assets (\$ Mil) | Avg Daily Trading Volume (Thous) | Portfolio (%) |      |       |      | % of Port in Foreign Issues | Port Turnover Ratio (%) | Number of Hldgs | % of Port in Top 10 Hldgs | Exp Ratio (%) | Inception Date |
|------------------|----------------|--------------|---------------|-----------|--------------------|-------------|-----------|-----------------------|----------------------------------|---------------|------|-------|------|-----------------------------|-------------------------|-----------------|---------------------------|---------------|----------------|
| 3-Year Ann'lzd   | 5-Year Ann'lzd | Bull* Mkt    | Bear* Mkt     |           |                    | Cat (X)     | Total (X) |                       |                                  | Stock         | Bond | Other | Cash |                             |                         |                 |                           |               |                |
| <b>25.1</b>      | <b>26.1</b>    | <b>264.9</b> | <b>(8.3)</b>  | 0.0       | 0.0                | 1.33        | 1.58      | 10,734                | 32,462                           | 0             | 0    | 100   | 0    | 0.0                         | 0                       | 1               | 100                       | 0.50          | 4/21/06        |
| <b>24.8</b>      | <b>16.4</b>    | <b>142.3</b> | <b>(29.7)</b> | 0.0       | 0.1                | 1.30        | 1.08      | 550                   | 470                              | 100           | 0    | 0     | 0    | 4.7                         | 35                      | 20              | 54                        | 0.60          | 6/19/06        |
| <b>24.0</b>      | <b>8.5</b>     | <b>177.2</b> | <b>(47.5)</b> | 0.9       | 0.6                | 1.09        | 1.15      | 570                   | 12,846                           | 100           | 0    | 0     | 0    | 1.1                         | 26                      | 96              | 12                        | 0.35          | 6/19/06        |
| <b>20.0</b>      | —              | 142.4        | —             | 1.3       | 0.4                | 0.80        | 0.97      | 860                   | 222                              | 99            | 0    | 0     | 1    | 99.3                        | 42                      | 43              | 69                        | 0.61          | 11/12/07       |
| <b>19.4</b>      | <b>11.2</b>    | <b>104.3</b> | <b>(24.5)</b> | 0.8       | 0.4                | 0.86        | 0.72      | 244                   | 75                               | 100           | 0    | 0     | 0    | 0.0                         | 47                      | 30              | 42                        | 0.35          | 6/19/06        |
| <b>18.8</b>      | —              | <b>126.0</b> | <b>(35.5)</b> | 0.2       | 0.0                | 0.91        | 0.76      | 341                   | 118                              | 100           | 0    | 0     | 0    | 2.4                         | 87                      | 73              | 25                        | 0.70          | 5/8/07         |
| 17.6             | —              | 92.0         | 9.4           | 0.0       | 0.0                | 0.76        | 0.91      | 551                   | 116                              | 0             | 0    | 113   | (13) | 0.0                         | 0                       | 14              | 113                       | 0.75          | 1/5/07         |
| <b>17.5</b>      | <b>11.4</b>    | <b>173.5</b> | <b>(50.6)</b> | 0.1       | 0.0                | 0.82        | 0.98      | 725                   | 201                              | 100           | 0    | 0     | 0    | 3.5                         | 16                      | 41              | 52                        | 0.60          | 6/19/06        |
| <b>17.2</b>      | <b>12.7</b>    | <b>183.4</b> | <b>(46.9)</b> | 0.1       | 0.1                | 1.06        | 0.99      | 678                   | 121                              | 100           | 0    | 0     | 0    | 0.0                         | 51                      | 106             | 21                        | 0.35          | 3/1/06         |
| 17.2             | 19.2           | 61.9         | <b>18.2</b>   | 0.0       | 0.0                | <b>0.67</b> | 0.79      | 6,983                 | 4,603                            | 0             | 0    | 100   | 0    | 0.0                         | 0                       | 1               | 100                       | 0.25          | 1/21/05        |
| <b>11.6</b>      | <b>8.3</b>     | <b>144.1</b> | <b>(49.2)</b> | 0.4       | 0.2                | 1.17        | 0.90      | 283                   | 91                               | 100           | 0    | 0     | 0    | 0.0                         | 31                      | 127             | 16                        | 0.35          | 3/1/06         |
| <b>11.1</b>      | 3.6            | 98.4         | <b>(45.3)</b> | 3.2       | 1.5                | 1.00        | 0.77      | 5,977                 | 612                              | 100           | 0    | 0     | 0    | 0.0                         | 44                      | 61              | 29                        | 0.35          | 11/8/05        |
| <b>9.1</b>       | 4.0            | <b>128.4</b> | <b>(57.0)</b> | 3.2       | 1.5                | 1.11        | 0.86      | 473                   | 125                              | 100           | 0    | 0     | 0    | 0.0                         | 5                       | 88              | 20                        | 0.38          | 6/16/06        |
| <b>8.7</b>       | <b>8.6</b>     | <b>117.3</b> | <b>(49.7)</b> | 0.7       | 0.2                | 1.13        | 0.88      | 22,839                | 52,536                           | 100           | 0    | 0     | 0    | 6.2                         | 8                       | 100             | 51                        | 0.20          | 3/10/99        |
| <b>8.4</b>       | <b>4.9</b>     | <b>137.9</b> | <b>(54.3)</b> | 1.4       | 0.6                | 1.24        | 0.96      | 3,264                 | 1,049                            | 100           | 0    | 0     | 0    | 0.2                         | 20                      | 501             | 2                         | 0.40          | 4/24/03        |
| <b>17.2</b>      | <b>12.7</b>    | <b>183.4</b> | <b>(46.9)</b> | 0.1       | 0.1                | 1.06        | 0.99      | 678                   | 121                              | 100           | 0    | 0     | 0    | 0.0                         | 51                      | 106             | 21                        | 0.35          | 3/1/06         |
| <b>11.3</b>      | —              | <b>147.4</b> | <b>(49.0)</b> | 0.4       | 0.3                | 1.04        | 0.97      | 303                   | 82                               | 100           | 0    | 0     | 0    | 0.0                         | 100                     | 299             | 7                         | 0.70          | 5/8/07         |
| <b>10.2</b>      | 4.3            | <b>201.8</b> | <b>(63.4)</b> | 1.1       | 0.8                | 1.46        | 1.36      | 53                    | 13                               | 100           | 0    | 0     | 0    | 0.0                         | 35                      | 97              | 23                        | 0.35          | 3/1/06         |
| 9.5              | 4.5            | 141.0        | <b>(53.5)</b> | 2.6       | 1.3                | 1.06        | 0.99      | 275                   | 40                               | 100           | 0    | 0     | 0    | 0.0                         | 10                      | 340             | 10                        | 0.38          | 6/16/06        |
| 8.6              | <b>8.3</b>     | 140.8        | <b>(48.2)</b> | 0.6       | 0.1                | 0.99        | 0.93      | 3,273                 | 393                              | 100           | 0    | 0     | 0    | 0.0                         | 41                      | 245             | 13                        | 0.25          | 7/24/00        |
| <b>13.8</b>      | —              | <b>184.9</b> | <b>(55.7)</b> | 0.8       | 0.3                | 1.12        | 1.18      | 390                   | 43                               | 100           | 0    | 0     | 0    | 3.1                         | 19                      | 1,488           | 2                         | 0.39          | 9/20/06        |
| <b>13.7</b>      | 2.3            | <b>250.0</b> | <b>(67.0)</b> | 0.5       | 0.5                | 1.68        | 1.77      | 79                    | 17                               | 100           | 0    | 0     | 0    | 0.5                         | 62                      | 152             | 18                        | 0.35          | 3/1/06         |
| <b>13.0</b>      | 5.2            | <b>159.7</b> | <b>(53.0)</b> | 2.0       | 0.5                | 1.02        | 1.08      | 193                   | 10                               | 100           | 0    | 0     | 0    | 0.0                         | 55                      | 228             | 9                         | 0.30          | 6/28/04        |
| 10.7             | <b>7.6</b>     | <b>159.8</b> | <b>(54.0)</b> | 0.5       | 0.2                | 1.01        | 1.06      | 187                   | 14                               | 100           | 0    | 0     | 0    | 0.0                         | 34                      | 364             | 10                        | 0.25          | 9/25/00        |
| 9.5              | <b>7.4</b>     | 155.8        | <b>(53.4)</b> | 0.4       | 0.2                | 0.98        | 1.03      | 2,225                 | 258                              | 100           | 0    | 0     | 0    | 2.1                         | 34                      | 985             | 5                         | 0.12          | 1/26/04        |
| <b>24.8</b>      | <b>16.4</b>    | <b>142.3</b> | <b>(29.7)</b> | 0.0       | 0.1                | 1.30        | 1.08      | 550                   | 470                              | 100           | 0    | 0     | 0    | 4.7                         | 35                      | 20              | 54                        | 0.60          | 6/19/06        |
| <b>24.0</b>      | <b>8.5</b>     | <b>177.2</b> | <b>(47.5)</b> | 0.9       | 0.6                | 1.09        | 1.15      | 570                   | 12,846                           | 100           | 0    | 0     | 0    | 1.1                         | 26                      | 96              | 12                        | 0.35          | 6/19/06        |
| <b>19.4</b>      | <b>11.2</b>    | <b>104.3</b> | <b>(24.5)</b> | 0.8       | 0.4                | 0.86        | 0.72      | 244                   | 75                               | 100           | 0    | 0     | 0    | 0.0                         | 47                      | 30              | 42                        | 0.35          | 6/19/06        |
| <b>18.8</b>      | —              | <b>126.0</b> | <b>(35.5)</b> | 0.2       | 0.0                | 0.91        | 0.76      | 341                   | 118                              | 100           | 0    | 0     | 0    | 2.4                         | 87                      | 73              | 25                        | 0.70          | 5/8/07         |
| <b>17.5</b>      | <b>11.4</b>    | <b>173.5</b> | <b>(50.6)</b> | 0.1       | 0.0                | 0.82        | 0.98      | 725                   | 201                              | 100           | 0    | 0     | 0    | 3.5                         | 16                      | 41              | 52                        | 0.60          | 6/19/06        |
| 16.7             | 10.1           | 93.6         | <b>(29.2)</b> | 1.2       | 0.3                | 0.83        | 0.69      | 224                   | 27                               | 100           | 0    | 0     | 0    | 0.0                         | 25                      | 39              | 57                        | 0.47          | 5/1/06         |
| <b>16.1</b>      | —              | <b>180.9</b> | <b>(57.9)</b> | 0.4       | 0.2                | 1.10        | 1.16      | 599                   | 228                              | 100           | 0    | 0     | 0    | 1.9                         | 114                     | 124             | 16                        | 0.70          | 5/8/07         |
| 14.9             | 5.5            | 149.9        | <b>(53.9)</b> | 0.9       | 0.5                | 0.96        | 1.01      | 355                   | 43                               | 100           | 0    | 0     | 0    | 1.5                         | 7                       | 372             | 31                        | 0.24          | 1/26/04        |
| 14.3             | 5.4            | 138.7        | <b>(50.9)</b> | 1.5       | 0.6                | 0.91        | 0.96      | 2,753                 | 9,624                            | 100           | 0    | 0     | 0    | 0.0                         | 8                       | 80              | 44                        | 0.20          | 12/16/98       |
| 13.3             | 5.8            | <b>117.0</b> | <b>(49.3)</b> | 0.2       | 0.0                | 1.13        | 0.94      | 355                   | 211                              | 100           | 0    | 0     | 0    | 0.0                         | 13                      | 52              | 62                        | 0.47          | 5/1/06         |
| <b>25.1</b>      | <b>26.1</b>    | <b>264.9</b> | <b>(8.3)</b>  | 0.0       | 0.0                | 1.33        | 1.58      | 10,734                | 32,462                           | 0             | 0    | 100   | 0    | 0.0                         | 0                       | 1               | 100                       | 0.50          | 4/21/06        |
| 17.6             | —              | 92.0         | 9.4           | 0.0       | 0.0                | 0.76        | 0.91      | 551                   | 116                              | 0             | 0    | 113   | (13) | 0.0                         | 0                       | 14              | 113                       | 0.75          | 1/5/07         |
| 17.2             | 19.2           | 61.9         | <b>18.2</b>   | 0.0       | 0.0                | <b>0.67</b> | 0.79      | 6,983                 | 4,603                            | 0             | 0    | 100   | 0    | 0.0                         | 0                       | 1               | 100                       | 0.25          | 1/21/05        |
| 16.9             | 19.2           | 59.9         | <b>19.9</b>   | 0.0       | 0.0                | <b>0.65</b> | 0.77      | 58,460                | 13,246                           | 0             | 0    | 100   | 0    | 0.0                         | 0                       | 1               | 100                       | 0.40          | 11/18/04       |
| 15.5             | —              | 59.6         | 14.7          | 0.0       | 0.0                | <b>0.67</b> | 0.79      | 263                   | 43                               | 0             | 0    | 114   | (14) | 0.0                         | 0                       | 12              | 114                       | 0.75          | 1/5/07         |
| 1.9              | —              | 102.4        | —             | 1.8       |                    | 0.92        | 0.90      | 972                   | 105                              | 99            | 0    | 1     | 0    | 57.0                        | 7                       | 2,891           | 7                         | 0.25          | 6/24/08        |
| <b>4.4</b>       | —              | <b>152.9</b> | <b>(65.6)</b> | 4.4       | 1.0                | 1.11        | 1.14      | 584                   | 178                              | 98            | 0    | 2     | 0    | 97.9                        | 62                      | 114             | 30                        | 0.50          | 6/11/07        |
| <b>3.0</b>       | —              | <b>162.7</b> | —             | 4.9       |                    | 1.23        | 1.26      | 579                   | 116                              | 99            | 0    | 1     | 0    | 98.0                        | 131                     | 119             | 36                        | 0.45          | 2/12/08        |
| <b>3.0</b>       | —              | 125.8        | <b>(59.2)</b> | 2.0       | 0.7                | 0.99        | 1.01      | 962                   | 96                               | 95            | 0    | 4     | 1    | 94.7                        | 17                      | 689             | 6                         | 0.59          | 4/20/07        |
| <b>2.7</b>       | —              | <b>129.8</b> | —             | 3.4       | 0.6                | 1.03        | 1.06      | 1,564                 | 199                              | 93            | 0    | 6     | 0    | 93.2                        | 15                      | 1,314           | 3                         | 0.40          | 12/10/07       |
| <b>10.2</b>      | <b>8.4</b>     | <b>194.8</b> | <b>(61.4)</b> | 3.3       | 0.5                | 1.07        | 1.26      | 588                   | 368                              | 100           | 0    | 0     | 0    | 97.6                        | 10                      | 37              | 62                        | 0.53          | 3/12/96        |

**Table 1. Top ETFs Over Three Years (con't)**

and silver futures contracts—a financial agreement between two parties based on the future price of an underlying asset. This ETF exposes investors to counterparty risk (the chance that the other party will not fulfill its obligations) and the pricing risk of the futures contracts themselves.

Three ETFs from the broad health care sector made the top 10 list: First Trust NYSE Arca Biotech Index (FBT), SPDR S&P Pharmaceuticals (XPH) and First Trust Health Care AlphaDEX (FXH). The health sector had the best performance of any ETF category for the first six months of 2011, a reflection of the low comparative valuations of health care stocks and a desire among investors for less economically sensitive companies.

The difference between SPDR S&P Pharmaceuticals and First Trust Health Care AlphaDEX is more than just their specific industry groups. SPDR S&P Pharmaceuticals tracks an equally weighted index. Once a quarter the index is rebalanced so that all companies are equally represented in the index. First Trust Health Care AlphaDEX follows an “enhanced” strategy that gives preference to specific companies based on return growth and valuation factors. Enhanced indexes are close cousins of actively managed strategies, because they seek to generate better returns than a market-capitalization index or an equally weighted index by selecting stocks with certain characteristics.

You may also notice iShares MSCI Chile Investable Market Index (ECH) on the top 10 list. There are several ETFs that allow you to invest in a specific country. The inherent danger of these funds is that you may not have enough information about the country to identify its risks. Thus, individual investors should use caution, especially when looking at countries with smaller financial markets, such as Chile.

| Index<br>Enhanced<br>ETN              | ETF Name (Ticker)                              | Total Return (%) |             |              |               |             |            |             |
|---------------------------------------|------------------------------------------------|------------------|-------------|--------------|---------------|-------------|------------|-------------|
|                                       |                                                | YTD              | 2010        | 2009         | 2008          | 2007        | 2006       | 12-Month    |
| I                                     | iShares MSCI Switzerland Index (EWL)           | 8.2              | <b>13.7</b> | 25.9         | <b>(29.8)</b> | 7.0         | 29.4       | 33.4        |
| I                                     | iShares MSCI Germany Index (EWG)               | <b>14.4</b>      | 8.6         | 24.9         | <b>(45.8)</b> | <b>34.7</b> | 35.7       | <b>45.8</b> |
| <b>Latin America Stock ETFs</b>       |                                                |                  |             |              |               |             |            |             |
| I                                     | iShares MSCI Chile Investable Mkt Idx (ECH)    | <b>(4.0)</b>     | 45.7        | 85.2         | <b>(37.0)</b> | —           | —          | 34.8        |
| I                                     | iShares MSCI Mexico Investable Mkt Idx (EWW)   | <b>1.0</b>       | 27.5        | 55.7         | <b>(41.6)</b> | 12.2        | 44.0       | 30.7        |
| I                                     | SPDR S&P Emerging Latin America (GML)          | <b>(2.7)</b>     | 15.8        | 104.8        | <b>(50.4)</b> | —           | —          | 26.1        |
| <b>Pacific/Asia Stock ETFs</b>        |                                                |                  |             |              |               |             |            |             |
| I                                     | iShares MSCI Malaysia Index (EWM)              | <b>7.5</b>       | <b>36.2</b> | 51.3         | <b>(41.3)</b> | <b>45.2</b> | 36.2       | <b>34.2</b> |
| I                                     | Guggenheim China Small Cap (HAO)               | <b>(6.8)</b>     | 15.4        | <b>102.1</b> | —             | —           | —          | 16.9        |
| I                                     | N iPath MSCI India Index ETN (INP)             | <b>(9.1)</b>     | <b>20.5</b> | <b>105.1</b> | <b>(65.6)</b> | <b>72.0</b> | —          | 7.2         |
| <b>Emerging Markets Stock ETFs</b>    |                                                |                  |             |              |               |             |            |             |
| I                                     | iShares MSCI Thailand Invest Mkt Index (THD)   | <b>(0.0)</b>     | <b>56.2</b> | 83.8         | —             | —           | —          | <b>39.7</b> |
| I                                     | WisdomTree Emerging Mkts SmallCap Div (DGS)    | <b>(1.6)</b>     | <b>29.0</b> | <b>85.9</b>  | <b>(47.1)</b> | —           | —          | 31.4        |
| I                                     | iShares MSCI Turkey Invest Mkt Index (TUR)     | <b>(8.3)</b>     | 23.5        | <b>107.7</b> | —             | —           | —          | 13.8        |
| <b>General Bond ETFs</b>              |                                                |                  |             |              |               |             |            |             |
| I                                     | iShares iBoxx \$ Invest Grade Corp Bond (LQD)  | <b>3.3</b>       | 9.2         | <b>12.1</b>  | <b>(0.4)</b>  | <b>3.7</b>  | <b>4.0</b> | <b>6.6</b>  |
| I                                     | Vanguard Long-Term Bond Index ETF (BLV)        | 3.1              | 10.4        | 1.8          | <b>8.7</b>    | —           | —          | 2.9         |
| I                                     | Vanguard Intermediate-Term Bond ETF (BIV)      | <b>3.5</b>       | <b>9.5</b>  | 6.8          | 5.1           | —           | —          | 5.3         |
| I                                     | iShares Barclays Credit Bond (CFT)             | 3.2              | <b>8.4</b>  | <b>14.2</b>  | <b>(2.1)</b>  | —           | —          | 6.0         |
| <b>High-Yield Corporate Bond ETFs</b> |                                                |                  |             |              |               |             |            |             |
| I                                     | SPDR Barclays Capital High Yield Bond (JNK)    | 4.3              | <b>14.0</b> | <b>50.5</b>  | <b>(30.2)</b> | —           | —          | <b>15.9</b> |
| <b>Inflation-Protected Bond ETFs</b>  |                                                |                  |             |              |               |             |            |             |
| I                                     | iShares Barclays TIPS Bond (TIP)               | 5.7              | 6.1         | <b>11.4</b>  | <b>(2.5)</b>  | <b>11.5</b> | <b>0.3</b> | 7.5         |
| <b>Government Bond ETFs</b>           |                                                |                  |             |              |               |             |            |             |
| I                                     | iShares Barclays 10-20 Year Treasury Bd (TLH)  | 3.2              | 9.6         | <b>(8.4)</b> | 20.1          | —           | —          | 1.6         |
| I                                     | iShares Barclays 7-10 Year Treasury (IEF)      | 3.5              | 9.3         | <b>(6.4)</b> | 18.0          | <b>10.2</b> | <b>2.7</b> | <b>3.5</b>  |
| I                                     | iShares Barclays Government/Credit Bond (GBF)  | 2.4              | 6.4         | 4.0          | <b>6.6</b>    | —           | —          | 3.5         |
| I                                     | iShares Barclays 3-7 Year Treasury Bond (IEI)  | <b>2.9</b>       | 6.5         | <b>(1.8)</b> | <b>13.1</b>   | —           | —          | <b>3.6</b>  |
| <b>Municipal National Bond ETFs</b>   |                                                |                  |             |              |               |             |            |             |
| I                                     | Market Vectors Intermediate Muni ETF (ITM)     | <b>4.7</b>       | 2.4         | <b>10.7</b>  | <b>(0.7)</b>  | —           | —          | 3.8         |
| I                                     | SPDR Nuveen Barclays Capital Muni Bond (TFI)   | 5.0              | 1.4         | 10.6         | <b>(0.3)</b>  | —           | —          | 3.3         |
| <b>International Bond ETFs</b>        |                                                |                  |             |              |               |             |            |             |
| I                                     | PowerShares Emerging Mkts Sovereign Debt (PCY) | 4.9              | <b>11.7</b> | <b>33.2</b>  | <b>(14.6)</b> | —           | —          | 10.0        |
| I                                     | iShares JPMorgan USD Emerg Markets Bond (EMB)  | 4.6              | 11.5        | 27.2         | <b>(11.8)</b> | —           | —          | <b>10.9</b> |

*\*Bull market is defined as 3/1/2009 through 4/30/2011. Bear market is defined as 11/1/2007 through Source: "The Individual Investor's Guide to Exchange-Traded Funds 2011," August 2011 AAIJ Journal. Go to [www.aaij.com/guides/etf-guide](http://www.aaij.com/guides/etf-guide) for the complete list of ETFs covered by AAIJ.*

## Look Beyond Performance

There is always a temptation to look more favorably at the best-performing funds. Though performance does matter, it is just one factor to consider.

As I previously stated, you should consider your portfolio needs. A basic allocation of ETFs holding domestic stocks with varying market capitalizations, international stocks, government bonds, corporate bonds and international bonds will serve most investors

well. Once this basic portfolio allocation is established, other asset classes, such as real estate and commodities, and more specialized funds can be added.

Sector and country funds can boost a portfolio's returns, but prudence is required when using them. Make sure you understand the factors that have driven a sector's performance over the past few years and how likely it is that those trends will continue in the future. Country-specific ETFs can allow you to target specific markets, but can be more



| Total Return (%) |                |              |               | Yield (%) | Tax-Cost Ratio (%) | Risk Index  |           | Total Assets (\$ Mil) | Avg Daily Trading Volume (Thous) | Portfolio (%) |      |       |      | % of Port in Foreign Issues | Port Turnover Ratio (%) | Number of Hldgs | % of Port in Top 10 Hldgs | Exp Ratio (%) | Inception Date |
|------------------|----------------|--------------|---------------|-----------|--------------------|-------------|-----------|-----------------------|----------------------------------|---------------|------|-------|------|-----------------------------|-------------------------|-----------------|---------------------------|---------------|----------------|
| 3-Year Ann'lzd   | 5-Year Ann'lzd | Bull* Mkt    | Bear* Mkt     |           |                    | Cat (X)     | Total (X) |                       |                                  | Stock         | Bond | Other | Cash |                             |                         |                 |                           |               |                |
| <b>5.2</b>       | <b>6.3</b>     | 100.6        | <b>(46.4)</b> | 2.0       | 0.3                | <b>0.72</b> | 0.84      | 592                   | 496                              | 100           | 0    | 0     | 0    | 97.8                        | 7                       | 41              | 74                        | 0.53          | 3/12/96        |
| <b>(0.8)</b>     | <b>6.3</b>     | <b>122.1</b> | <b>(60.3)</b> | 2.5       | 0.5                | 1.02        | 1.19      | 3,803                 | 3,394                            | 99            | 0    | 0     | 1    | 99.0                        | 5                       | 55              | 60                        | 0.53          | 3/12/96        |
| <b>20.0</b>      | —              | 142.4        | —             | 1.3       | 0.4                | 0.80        | 0.97      | 860                   | 222                              | 99            | 0    | 0     | 1    | 99.3                        | 42                      | 43              | 69                        | 0.61          | 11/12/07       |
| 4.5              | 12.8           | <b>175.6</b> | <b>(59.3)</b> | 1.2       | 0.3                | 0.98        | 1.18      | 1,600                 | 2,427                            | 100           | 0    | 0     | 0    | 99.7                        | 11                      | 47              | 68                        | 0.53          | 3/12/96        |
| 1.8              | —              | 156.3        | <b>(56.4)</b> | 1.8       | 0.8                | 1.04        | 1.26      | 199                   | 19                               | 98            | 0    | 2     | 0    | 97.3                        | 23                      | 121             | 44                        | 0.59          | 3/19/07        |
| <b>16.4</b>      | <b>19.2</b>    | 126.3        | <b>(41.3)</b> | 2.6       | 1.1                | 0.77        | 0.78      | 1,004                 | 2,342                            | 100           | 0    | 0     | 0    | 99.8                        | 29                      | 44              | 56                        | 0.53          | 3/12/96        |
| <b>11.4</b>      | —              | <b>159.8</b> | —             | 1.6       | —                  | 1.28        | 1.29      | 290                   | 127                              | 100           | 0    | 0     | 0    | 100.0                       | 46                      | 200             | 14                        | 0.75          | 1/30/08        |
| <b>10.0</b>      | —              | <b>164.6</b> | <b>(68.4)</b> | 0.0       | 0.0                | 1.47        | 1.49      | 723                   | 135                              | 100           | 0    | 0     | 0    | 100.0                       | 0                       | 60              | 54                        | 0.89          | 12/19/06       |
| <b>17.0</b>      | —              | <b>241.6</b> | —             | 2.4       | —                  | 1.11        | 1.29      | 584                   | 252                              | 99            | 0    | 1     | 1    | 98.7                        | 14                      | 91              | 59                        | 0.62          | 3/26/08        |
| <b>14.3</b>      | —              | <b>168.9</b> | <b>(54.7)</b> | 2.9       | 1.3                | 0.94        | 1.08      | 922                   | 152                              | 100           | 0    | 0     | 0    | 100.0                       | 35                      | 553             | 10                        | 0.63          | 10/30/07       |
| <b>12.4</b>      | —              | <b>233.7</b> | —             | 2.2       | —                  | 1.46        | 1.69      | 579                   | 218                              | 98            | 0    | 2     | 0    | 97.9                        | 13                      | 104             | 57                        | 0.61          | 3/26/08        |
| <b>8.3</b>       | <b>6.8</b>     | <b>31.3</b>  | <b>(4.3)</b>  | 4.7       | 2.0                | 1.19        | 0.39      | 13,703                | 875                              | 0             | 99   | 0     | 1    | 21.7                        | 7                       | 662             | 8                         | 0.15          | 7/22/02        |
| 8.1              | —              | 24.6         | <b>2.3</b>    | 4.9       | 1.9                | 1.41        | 0.47      | 378                   | 54                               | 0             | 99   | 1     | 0    | 11.9                        | 54                      | 1,131           | 26                        | 0.11          | 4/3/07         |
| <b>8.0</b>       | —              | 22.5         | 5.0           | 3.9       | 1.5                | 1.48        | 0.26      | 2,151                 | 216                              | 0             | 99   | 0     | 0    | 11.5                        | 46                      | 1,121           | 28                        | 0.11          | 4/3/07         |
| <b>7.8</b>       | —              | <b>29.7</b>  | <b>(3.3)</b>  | 4.4       | 1.8                | 1.75        | 0.31      | 842                   | 43                               | 0             | 97   | 0     | 2    | 27.4                        | 13                      | 1,420           | 3                         | 0.20          | 1/5/07         |
| <b>9.0</b>       | —              | <b>85.0</b>  | —             | 8.3       | 4.6                | 1.06        | 0.69      | 6,860                 | 4,404                            | 0             | 99   | 0     | 1    | 17.8                        | 53                      | 226             | 14                        | 0.40          | 11/28/07       |
| 5.1              | <b>6.8</b>     | 23.7         | <b>1.0</b>    | 3.6       | 1.5                | 1.26        | 0.32      | 20,587                | 834                              | 0             | 98   | 0     | 2    | 0.0                         | 13                      | 32              | 43                        | 0.20          | 12/4/03        |
| <b>6.9</b>       | —              | <b>9.8</b>   | 15.6          | 3.4       | 1.4                | 0.68        | 0.44      | 252                   | 50                               | 0             | 100  | 0     | 0    | 0.0                         | 56                      | 22              | 61                        | 0.15          | 1/5/07         |
| <b>6.7</b>       | <b>7.7</b>     | <b>8.6</b>   | 16.9          | 3.0       | 1.3                | <b>0.48</b> | 0.31      | 3,434                 | 1,411                            | 0             | 100  | 0     | 0    | 0.0                         | 108                     | 21              | 83                        | 0.15          | 7/22/02        |
| <b>6.0</b>       | —              | <b>15.1</b>  | 6.2           | 3.1       | 1.3                | 0.98        | 0.20      | 109                   | 7                                | 0             | 93   | 0     | 7    | 10.9                        | 23                      | 339             | 36                        | 0.20          | 1/5/07         |
| <b>5.9</b>       | —              | <b>8.2</b>   | <b>14.7</b>   | 2.0       | 1.0                | 1.12        | 0.17      | 1,663                 | 264                              | 0             | 100  | 0     | 0    | 0.0                         | 89                      | 42              | 52                        | 0.15          | 1/5/07         |
| <b>5.8</b>       | —              | <b>12.1</b>  | —             | 3.4       | 0.2                | 1.67        | 0.24      | 238                   | 60                               | 0             | 100  | 0     | 0    | 0.0                         | 19                      | 414             | 6                         | 0.24          | 12/4/07        |
| <b>5.6</b>       | —              | 11.6         | <b>4.6</b>    | 3.4       | 0.3                | <b>0.79</b> | 0.22      | 874                   | 132                              | 0             | 99   | 0     | 1    | 0.0                         | 9                       | 297             | 13                        | 0.23          | 9/11/07        |
| <b>10.6</b>      | —              | <b>51.1</b>  | <b>(14.7)</b> | 5.6       | 2.2                | 1.08        | 0.57      | 1,141                 | 379                              | 0             | 99   | 0     | 1    | 99.4                        | 5                       | 62              | 24                        | 0.50          | 10/11/07       |
| 9.8              | —              | 47.0         | —             | 5.0       | 2.1                | <b>0.93</b> | 0.49      | 2,925                 | 265                              | 0             | 97   | 2     | 1    | 95.1                        | 24                      | 85              | 32                        | 0.60          | 12/17/07       |

2/28/2009.

Data from Morningstar Inc. is through June 30, 2011.

volatile and expose you to exchange rate risks.

Be sure you fully understand the index that the ETF is designed to follow. Similar sounding indexes can have different return characteristics. They

can also either hold different stocks or weight the same stocks differently. A quick visit to an ETF family's website can give you the list of current holdings.

Finally, use this rule of thumb when looking at ETFs: "Just because

you can invest in something doesn't mean you should." Buy only those ETFs that you fully understand; avoid those tracking indexes or investing in sectors or countries with risks that you cannot identify. ▲

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