The Top ETFs Over Three Years: Consumer Spending Makes an Impact

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Article Highlights

- Just one ETF kept its spot on the top-10 list for the third consecutive year.
- A fund focused on spin-offs is among the top performers, thanks to its growth-oriented strategy.
- The rise in Treasury yields exposed liquidity issues and caused mispricings in several bond ETFs.

This is the third year we have compiled and analyzed the top-performing exchange-traded funds (ETFs).

Only one ETF has made the list of the 10 best performers in all three years: SPDR S&P Retail fund (XRT). The fund's three-year annualized gain of 30.6% ranks third among all exchange-traded funds. Its three-year performance ranked eighth in 2012 and third in 2011.

Notably only one other ETF retained its top-10 ranking from last year: PowerShares Dynamic Pharmaceuticals fund (PJP). The ETF realized a 33.5% annualized gain over the past three years, the best performance of any ETF over that time period. Last year, the fund ranked sixth among all funds.

What's notable about the two funds is that they follow two very different types of indexes. SPDR S&P Retail follows an equal-weighted index. PowerShares Dynamic Pharmaceuticals follows a rankings-based index. Companies for PowerShares Dynamic Pharmaceuticals' underlying index are selected based on a variety of criteria including price momentum, earnings momentum, quality, management action and value. The differences between the two index's methodologies show that no one single methodology has universally proven to be the best over the past few years.

The two funds also show the difficulty of solely picking ETFs based on recent sector performance. This year's top-10 three-year rankings show a significant turnover from last year not only in terms of the funds, but also in terms of the categories they represent. Last year's top-10 list featured six real estate funds; this year's list contains none. Instead, the category breakdown for this year's top-10 rankings is as follows: health (3), consumer discretionary (4), homebuilders (2) and mid-cap (1).

As is the case with mutual funds, the return realized by an ETF is primarily influenced by its investment objective. If the category, industry group or style a fund is designed to follow does well, the fund's performance will benefit. We saw this play out with the consumer discretionary category. The sustained economic rebound has prompted consumers to open their wallets more, as seen in the growth of retail sales over the past three years. This in turn has given a boost to both retailers and other companies that benefit from consumer discretionary spending. SPDR S&P Retail has been an obvious beneficiary of this trend, but so have fellow top-10 performers PowerShares Dynamic Leisure & Entertainment fund (PEJ), Vanguard Consumer Discretionary fund (VCR) and Consumer Discretionary Select Sector SPDR fund (XLY). These three sector funds invest in media, travel, automobile and restaurant companies as well as retailers.

No Overall Trends in Equity Funds

In writing this year's analysis, I looked at the broad stock categories to see if there were any discernible trends I could point out. Though there were pockets of outperformance, there was not a single investment style or indexing methodology that held across most categories.

Dividends provide a good example. Three dividend-oriented funds—WisdomTree Dividend ex-Financials fund (DTN), WisdomTree Equity Income fund (DHS) and Vanguard High Dividend Yield Index ETF (VYM)—ranked among the large-cap stock category's best-performing funds for three years. In the foreign stock category, WisdomTree International SmallCap Dividend fund (DLS) and PowerShares International Dividend Achievers fund (PID) were the best and third-best performing funds, respectively.

In other stock categories, the investment style of the top-performing funds differed. The mid-cap category contains a combination of value, growth, core and alternative styles. Three of the small-cap category's top performers over three years are growth-oriented funds. Europe, Latin America and Pacific/Asia are dominated by country-specific funds. (Not surprisingly, given the continent's sovereign debt problems, the top-performing European funds focused on northern European countries: iShares MSCI Switzerland Capped Index fund

Table 1. Top ETFs Over Three Years

Index / Enhanced / ETN	ETF Name (Ticker)	NAV Total Return (%) YTD	2012	2011	2010	2009	2008	12-Month Return (%) NAV	Market
	Overall Three-Year Top Performers								
I	PowerShares Dynamic Pharmaceuticals (PJP)	22.6	24.7	19.8	27.8	16.9	(10.6)	29.3	29.4
I	iShares Nasdaq Biotechnology (IBB)	26.7	32.0	11.9	14.9	15.5	(12.7)	34.1	34.3
I	SPDR S&P Retail (XRT)	23.2	20.7	9.7	37.0	77.7	(38.8)	31.8	31.8
I	SPDR S&P Homebuilders (XHB)	10.9	57.5	(0.9)	17.5	26.9	(36.3)	38.7	38.6
I	PowerShares Dynamic Leisure & Entertain (PEJ)	22.0	23.7	2.1	39.2	42.4	(39.9)	29.4	29.7
I	Vanguard Consumer Discretionary ETF (VCR)	19.8	24.7	3.7	30.6	46.5	(38.0)	33.1	33.4
I	iShares Dow Jones US Home Construction (ITB)	5.9	78.9	(8.9)	10.4	21.1	(41.9)	33.5	33.8
I	Consumer Discret Select Sector SPDR (XLY)	19.6	23.6	6.0	27.4	41.2	(33.5)	31.1	30.9
I	SPDR S&P Biotech (XBI)	18.7	32.9	5.3	17.6	0.5	(8.8)	18.4	18.2
I	Guggenheim Spin-Off (CSD)	24.6	27.0	3.8	21.9	64.2	(55.0)	39.8	39.1
	Large-Cap Stock Category Average	13.7	14.7	2.7	15.9	28.8	(36.2)	20.7	20.8
I	PowerShares Buyback Achievers (PKW)	19.8	13.8	10.0	18.0	31.2	(33.6)	26.4	26.4
I	Guggenheim S&P 500 Pure Growth (RPG)	17.8	15.0	0.4	27.1	50.2	(39.1)	24.0	24.1
I	WisdomTree Dividend ex-Financials (DTN)	13.9	11.8	11.9	21.4	26.0	(36.7)	20.6	20.4
I	WisdomTree Equity Income (DHS)	14.7	11.3	13.9	17.6	17.7	(39.3)	16.9	17.0
I	Vanguard High Dividend Yield Indx ETF (VYM)	16.1	12.7	10.5	14.2	17.6	(32.4)	21.1	20.9
	Mid-Cap Stock Category Average	15.4	16.1	(0.9)	24.4	37.1	(39.5)	25.3	25.5
I	Guggenheim Spin-Off (CSD)	24.6	27.0	3.8	21.9	64.2	(55.0)	39.8	39.1
I	Guggenheim S&P 500 Pure Value (RPV)	20.0	25.0	(1.2)	22.5	54.1	(48.1)	40.9	40.9
I	Guggenheim S&P Midcap 400 Pure Growth (RFG)	11.8	16.9	0.4	34.7	59.8	(35.5)	21.7	21.8
I	iShares Morningstar Mid Core Index (JKG)	13.3	17.7	2.1	26.1	38.6	(38.8)	23.0	23.1
I	WisdomTree MidCap Earnings (EZM)	16.2	17.8	1.4	25.5	49.6	(35.4)	30.7	30.9
	Small-Cap Stock Category Average	16.0	17.0	(1.9)	26.5	35.9	(35.1)	25.4	25.4
I	SPDR S&P 600 Small Cap Growth ETF (SLYG)	15.7	14.4	3.5	30.2	46.9	(41.0)	21.9	21.8
I	Vanguard Small Cap Growth ETF (VBK)	15.7	17.7	(1.4)	30.9	42.0	(39.9)	24.4	24.2
I	RevenueShares Small Cap (RWJ)	16.9	18.6	(0.7)	25.6	48.2	—	31.7	31.3
I	iShares S&P SmallCap 600 Growth (IJT)	15.8	14.5	3.5	27.8	28.2	(32.9)	22.0	21.5
I	SPDR S&P 600 Small Cap ETF (SLY)	16.1	16.2	0.9	27.4	41.3	(37.5)	25.0	25.0
	Micro-Cap Stock Category Average	18.9	19.0	(11.9)	25.4	18.7	(38.5)	27.4	27.0
I	iShares Russell Microcap Index (IWC)	18.4	19.4	(9.5)	28.8	24.8	(39.6)	25.4	25.3
I	First Trust Dow Jones Select MicroCp Idx (FDM)	16.2	15.9	(8.6)	25.7	20.9	(33.3)	26.5	26.0
	Preferred Stock Category Average	(0.5)	15.9	0.0	14.2	33.0	(25.7)	4.2	3.7
I	PowerShares Financial Preferred (PGF)	0.9	20.7	(1.6)	16.5	40.5	(28.2)	5.5	5.8
	Communications Sector Category Average	9.0	11.9	(2.6)	15.9	29.5	(40.7)	17.9	17.4
I	PowerShares Dynamic Media (PBS)	25.5	27.3	(4.1)	20.3	61.3	(49.1)	43.4	43.8
	Consumer Discretionary Sector Cat Average	15.7	22.0	0.8	29.1	44.9	(36.0)	27.6	27.7
I	SPDR S&P Retail (XRT)	23.2	20.7	9.7	37.0	77.7	(38.8)	31.8	31.8
	Consumer Staples Sector Category Average	14.3	12.3	9.1	17.6	21.3	(21.3)	19.8	20.4
I	First Trust Consumer Staples AlphaDEX (FXG)	22.1	9.4	13.1	19.8	27.2	(24.6)	28.2	28.6
	Energy Sector Category Average	11.5	0.0	(11.8)	12.6	40.8	(49.3)	18.3	18.4
I	PowerShares Dynamic Energy Explor & Prod (PXE)	9.5	23.6	(1.6)	39.9	20.0	(45.0)	30.6	30.7
I	PowerShares Dynamic Energy (PXI)	11.4	13.9	2.8	39.7	41.1	(46.4)	28.0	28.1
	Financial Sector Category Average	14.3	24.1	(15.4)	14.3	19.4	(47.8)	28.7	29.7
I	First Trust Financials AlphaDEX (FXO)	20.5	21.3	(7.3)	19.1	31.7	(38.2)	31.1	31.1
I	SPDR S&P Insurance ETF (KIE)	23.7	20.9	(12.2)	26.1	28.5	(46.8)	35.7	35.6
	Health Sector Category Average	19.5	21.0	7.5	14.6	26.1	(22.7)	25.9	26.7
I	PowerShares Dynamic Pharmaceuticals (PJP)	22.6	24.7	19.8	27.8	16.9	(10.6)	29.3	29.4
I	iShares Nasdaq Biotechnology (IBB)	26.7	32.0	11.9	14.9	15.5	(12.7)	34.1	34.3
	Homebuilders Sector Category Average	8.4	68.2	(4.8)	13.9	24.0	(39.0)	36.0	36.2
I	SPDR S&P Homebuilders (XHB)	10.9	57.5	(0.9)	17.5	26.9	(36.3)	38.7	38.6
	Industrials Sector Category Average	9.0	18.6	(9.0)	19.4	27.3	(36.8)	21.4	21.7
I	PowerShares Dynamic Building & Construct (PKB)	8.5	45.6	(6.9)	14.5	1.8	(35.4)	36.8	37.6
I	iShares Dow Jones US Industrial (IYJ)	13.8	17.4	(1.3)	25.4	25.7	(39.7)	24.0	24.1

Data as of 6/30/2013.

3-Yr Ann'lzd Return (%) NAV	3-Yr Ann'lzd Return (%) Market	Total Return (%) 5-Year Ann'lzd	Total Return (%) Bull* Mkt	Total Return (%) Bear* Mkt	Yield (%)	Tax-Cost Ratio (%)	Risk Index Cat (X)	Risk Index Total (X)	Total Assets ($ Mil)	Avg Daily Trading Volume (Thous)	Portfolio (%) Stock	Portfolio (%) Bond	Portfolio (%) Other	Portfolio (%) Cash	% of Port in Foreign Issues	Port Turnover Ratio (%)	Number of Hldgs	% of Port in Top 10 Hldgs	Exp Ratio (%)
33.5	33.6	21.5	225.7	(28.1)	1.3	0.4	0.85	0.96	547	172	100	0	0	0	2.8	24	31	46	0.63
31.4	31.4	18.0	179.0	(27.3)	0.3	0.1	1.04	1.17	3,148	881	100	0	0	0	7.8	14	125	56	0.48
30.6	30.6	22.9	309.6	(47.5)	1.4	0.4	1.03	1.33	1,053	3,929	100	0	0	0	0.0	39	98	11	0.35
28.8	28.8	13.8	234.8	(57.2)	0.5	0.4	0.95	1.74	2,472	9,633	100	0	0	0	0.0	46	36	33	0.35
27.2	27.3	17.5	262.2	(54.0)	0.5	0.3	0.99	1.28	108	72	100	0	0	0	0.0	93	31	45	0.63
26.7	26.8	16.8	256.4	(53.9)	1.3	0.2	0.91	1.17	865	103	100	0	0	0	1.8	6	370	34	0.14
26.7	26.6	10.4	209.9	(63.4)	0.5	0.1	1.05	1.93	2,423	7,707	100	0	0	0	0.0	17	33	63	0.47
26.6	26.6	16.7	244.0	(50.9)	1.4	0.5	0.84	1.08	5,898	7,145	100	0	0	0	0.8	5	84	46	0.18
26.4	26.4	12.8	125.6	(22.2)	0.3	0.0	1.42	1.61	866	381	100	0	0	0	2.0	61	57	22	0.35
26.0	25.6	12.8	269.2	(63.0)	0.2	0.1	0.90	1.11	196	142	100	0	0	0	6.2	—	24	47	0.65
18.4	18.1	7.7	148.0	(50.4)	1.8	0.5	1.00	1.06	3,262	1,951	98	0	0	1	2.6	24	455	26	0.41
22.6	22.5	12.2	182.8	(49.2)	1.0	0.3	0.92	0.96	734	387	100	0	0	0	0.0	80	204	35	0.71
22.6	22.6	11.4	198.5	(49.2)	0.7	0.2	1.18	1.23	472	66	100	0	0	0	1.3	35	111	19	0.35
21.1	21.0	11.2	198.2	(57.1)	3.7	1.3	0.79	0.82	1,132	79	100	0	0	0	0.0	—	84	18	0.38
21.0	21.1	9.8	194.7	(62.0)	3.6	1.3	0.75	0.77	708	95	100	0	0	0	0.0	—	351	43	0.38
20.7	20.6	9.1	157.9	(51.7)	3.0	0.5	0.81	0.84	6,145	780	100	0	0	0	1.2	11	397	35	0.10
18.9	18.9	8.6	176.8	(53.0)	1.3	0.4	1.00	1.25	1,551	155	100	0	0	0	1.9	45	382	14	0.41
26.0	25.6	12.8	269.2	(63.0)	0.2	0.1	0.90	1.11	196	142	100	0	0	0	6.2	—	24	47	0.65
22.0	22.1	13.7	324.0	(68.3)	1.4	0.6	1.12	1.38	234	82	100	0	0	0	1.3	37	116	20	0.35
21.9	21.9	13.3	225.6	(46.9)	0.9	0.2	1.06	1.30	604	33	100	0	0	0	0.0	56	92	23	0.35
20.8	20.6	9.0	185.2	(52.5)	1.3	0.4	1.00	1.23	205	9	100	0	0	0	0.7	90	190	12	0.25
20.5	20.5	12.9	217.8	(50.6)	1.6	0.5	1.04	1.29	234	16	100	0	0	0	0.2	39	612	8	0.38
19.6	19.5	10.4	199.9	(53.9)	1.5	0.4	1.00	1.39	1,514	1,306	100	0	0	0	0.7	38	695	8	0.34
21.9	21.9	10.8	213.6	(54.1)	1.1	0.3	0.96	1.31	226	8	100	0	0	0	0.0	37	355	10	0.31
21.3	21.3	9.9	199.7	(53.4)	0.9	0.1	1.06	1.45	2,786	122	96	0	0	4	1.3	37	953	5	0.10
20.8	20.7	13.8	239.8	—	0.8	0.2	1.05	1.44	153	19	100	0	0	0	0.2	—	602	13	0.54
20.7	20.6	9.8	185.0	(51.4)	1.2	0.3	0.94	1.28	1,926	135	100	0	(0)	0	0.0	47	352	10	0.25
20.6	20.5	11.0	205.2	(53.4)	1.4	0.5	0.96	1.31	317	13	100	0	0	0	0.1	13	603	5	0.23
17.7	17.4	5.5	148.9	(58.7)	1.5	0.4	1.00	1.53	194	44	100	0	0	0	2.6	63	709	6	0.69
18.1	18.0	8.1	166.5	(57.5)	1.6	0.4	0.97	1.46	576	136	99	0	0	1	1.5	29	1,293	5	0.69
16.8	16.5	7.3	154.2	(55.2)	1.7	0.4	1.03	1.55	121	14	100	0	0	0	2.1	—	266	9	0.60
9.0	8.9	6.2	181.2	(58.4)	5.9	2.2	1.00	0.55	2,139	970	9	1	89	1	7.4	43	121	29	0.55
10.7	10.7	7.3	231.5	(62.5)	6.4	2.4	1.31	0.71	1,692	972	18	1	81	(0)	14.9	18	66	44	0.66
15.7	15.8	7.1	119.3	(51.2)	2.8	0.8	1.00	1.20	188	107	99	0	0	1	46.3	28	49	54	0.51
23.9	23.9	12.3	245.1	(61.3)	0.6	0.3	1.24	1.47	170	139	100	0	0	0	0.0	70	32	46	0.63
24.7	24.8	15.4	228.3	(51.1)	1.4	0.4	1.00	1.31	555	686	99	0	0	0	30.3	36	112	36	0.50
30.6	30.6	22.9	309.6	(47.5)	1.4	0.4	1.03	1.33	1,053	3,929	100	0	0	0	0.0	39	98	11	0.35
19.2	19.3	12.1	133.4	(32.4)	1.8	0.5	1.00	0.84	868	1,483	99	0	0	0	28.7	23	72	49	0.48
21.8	21.8	14.0	152.5	(35.1)	1.5	0.4	1.10	0.92	597	212	100	0	0	0	0.0	—	38	46	0.70
6.8	6.9	(10.1)	72.9	(56.3)	2.6	0.7	1.00	2.01	595	568	99	1	1	0	35.3	31	59	49	0.70
23.6	23.6	(0.1)	175.7	(54.5)	2.4	0.6	1.01	2.00	102	66	100	0	0	0	0.0	80	31	47	0.65
23.1	23.2	1.9	204.0	(54.5)	1.6	0.4	0.94	1.85	131	23	100	0	0	0	1.6	80	61	26	0.65
12.3	12.3	3.1	158.8	(68.9)	2.5	0.6	1.00	1.60	727	2,001	88	8	2	2	30.7	23	101	39	0.80
18.0	18.0	11.4	208.8	(61.2)	1.7	0.7	0.79	1.23	343	208	100	0	0	0	4.0	—	164	11	0.70
17.5	17.5	7.7	237.3	(67.7)	2.0	0.6	0.90	1.42	319	277	99	0	0	1	6.3	62	48	22	0.35
22.6	22.7	14.3	158.1	(33.9)	0.9	0.2	1.00	1.14	769	580	100	0	0	0	17.4	26	68	48	0.46
33.5	33.6	21.5	225.7	(28.1)	1.3	0.4	0.85	0.96	547	172	100	0	0	0	2.8	24	31	46	0.63
31.4	31.4	18.0	179.0	(27.3)	0.3	0.1	1.04	1.17	3,148	881	100	0	0	0	7.8	14	125	56	0.48
27.7	27.6	12.1	222.3	(60.3)	0.4	0.2	1.00	1.86	2,448	8,670	100	0	0	0	0.0	32	35	48	0.40
28.8	28.8	13.8	234.8	(57.2)	0.5	0.4	0.95	1.74	2,472	9,633	100	0	0	0	0.0	46	36	33	0.35
13.3	13.5	4.4	131.2	(52.9)	1.7	0.5	1.00	1.41	361	494	99	0	0	0	36.4	28	84	42	0.54
21.7	21.9	4.1	143.1	(58.7)	0.4	0.8	1.20	1.66	100	67	100	0	0	0	5.2	95	31	47	0.63
19.3	19.3	7.0	177.2	(56.7)	1.5	0.3	0.96	1.34	987	125	100	0	0	0	6.4	7	224	37	0.47

(EWL) and iShares MSCI Sweden Index fund (EWD).

The Strong Returns of Spin-Offs

Guggenheim Spin-Off (CSD) was the 10th best-performing fund, with a three-year annualized total return of 26.0%. The fund also ranked in the top quartile of all mid-cap ETFs in 2009, 2011, 2012 and during the first half of 2013 (returns shown in bold). Its performance during the last bear market, however, was disappointing. The fund lost 63.0%, versus a 53.0% drop for the average mid-cap exchange-traded fund.

As the name implies, Guggenheim Spin-Off invests in companies that have been spun-off within the past 30 months. These are companies that have been separated from their parent companies either through a spin-off distribution of stock or a partial initial public offering. These types of corporate events occur when the board of directors believes value can be unlocked by separating a subsidiary or an operating division from its parent company.

Though not a pure mid-cap fund, Guggenheim Spin-Off primarily invests in companies with market capitaliza-

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

			NAV Total Return (%)						12-Month Return (%)	
Index	Enhanced ETN	ETF Name (Ticker)	YTD	2012	2011	2010	2009	2008	NAV	Market
		Natural Resources Sector Category Average	(11.5)	9.2	(20.6)	20.1	57.1	(49.6)	(1.5)	(1.4)
I		Vanguard Materials ETF (VAW)	2.8	17.3	(9.4)	24.3	51.6	(46.5)	13.2	13.4
I		First Trust Materials AlphaDEX (FXZ)	3.2	25.2	(10.1)	28.1	60.0	(44.6)	18.7	19.1
		Precious Metals Sector Category Average	(47.7)	(11.9)	(30.1)	44.8	43.6	(26.5)	(43.7)	(42.9)
I		Global X Silver Miners ETF (SIL)	(48.4)	8.4	(21.3)	—	—	—	(36.6)	(36.5)
		Real Estate Sector Category Average	5.4	19.8	5.9	26.6	25.9	(39.7)	9.4	9.9
I		iShares Residential Real Estate Capped (REZ)	7.1	13.5	15.9	31.7	21.2	(25.2)	9.8	9.9
I		Vanguard REIT Index ETF (VNQ)	6.3	17.7	8.6	28.4	29.8	(37.0)	9.0	9.0
		Real Estate Global Sector Cat Average	(0.4)	34.5	(12.3)	17.6	39.7	(51.7)	16.3	15.5
I		SPDR Dow Jones Global Real Estate (RWO)	2.6	25.1	(2.7)	24.1	34.3	—	11.2	11.0
I		Cohen & Steers Global Realty Majors ETF (GRI)	1.2	29.0	(4.9)	20.0	32.5	—	13.5	13.2
		Technology Sector Category Average	10.3	11.6	(9.1)	18.9	62.7	(44.2)	14.8	15.2
I		First Trust Dow Jones Internet Index (FDN)	16.3	20.9	(5.7)	36.7	79.2	(44.0)	28.4	28.6
I		PowerShares S&P SmallCap Info Tech (PSCT)	15.3	11.7	(4.3)	—	—	—	23.3	23.9
		Utilities Sector Category Average	5.9	5.5	2.8	3.7	10.9	(28.4)	8.0	8.4
I		Vanguard Utilities ETF (VPU)	11.1	2.0	18.9	6.9	11.4	(28.1)	8.7	8.8
I		iShares Dow Jones US Utilities (IDU)	11.3	1.3	18.6	7.3	12.2	(30.4)	8.6	8.6
		Commodities: Agriculture Category Average	(9.3)	(3.5)	(12.4)	33.3	13.1	(26.9)	(10.6)	(9.7)
I	N	iPath DJ-UBS Grains TR Sub-Idx ETN (JJG)	(8.0)	18.0	(15.4)	30.1	(2.4)	(27.1)	(6.2)	(6.4)
		Commodities: Energy Category Average	(3.2)	(11.5)	(7.7)	(6.0)	11.2	(45.5)	1.4	1.2
I		PowerShares DB Energy (DBE)	(2.7)	1.3	2.7	3.4	24.8	(39.5)	7.7	7.6
		Commodities: Precious Metals Cat Average	(32.4)	6.2	(5.1)	54.1	42.6	(7.5)	(28.0)	(26.3)
I		ETFS Physical Palladium Shares (PALL)	(8.3)	9.2	(20.1)	—	—	—	10.6	12.8
		Commodities: Miscellaneous Cat Average	(13.7)	(0.8)	(17.4)	15.9	52.7	(44.5)	(9.1)	(8.9)
I		PowerShares DB Commodity Index Tracking (DBC)	(9.4)	3.3	(2.7)	11.9	15.1	(30.8)	(2.5)	(2.4)
		Balanced Category Average	4.0	10.8	0.6	10.6	19.9	(24.9)	9.5	11.5
I		iShares S&P Aggressive Allocation (AOA)	8.2	15.1	(1.8)	17.0	26.4	—	16.3	16.1
		Balanced: Global Category Average	(1.4)	6.9	(2.3)	5.8	19.0	—	5.8	6.3
I		iShares Growth Allocation (AOR)	5.6	11.4	1.2	11.1	19.1	—	11.6	11.1
		Global Stock Category Average	3.4	13.3	(5.6)	8.8	39.3	(43.5)	13.2	13.3
I		iShares MSCI Kokusai (TOK)	7.8	16.9	(4.3)	11.4	33.0	(41.3)	18.5	18.7
I		iShares S&P Global 100 Index (IOO)	8.1	12.6	(3.7)	5.3	26.6	(37.0)	17.8	17.8
		Foreign Stock Category Average	1.3	15.3	(12.5)	11.9	40.3	(44.0)	14.5	14.8
I		WisdomTree International SmallCap Div (DLS)	5.5	21.5	(12.1)	18.2	42.0	(46.7)	23.7	23.1
I		iShares MSCI EAFE Small Cap Index (SCZ)	5.8	19.9	(14.9)	22.3	46.4	(47.9)	20.9	19.8
I		PowerShares Intl Dividend Achievers (PID)	4.4	12.3	(2.5)	13.6	37.0	(46.5)	14.4	14.5
		Foreign Stock: Europe Category Average	2.2	21.1	(14.0)	4.1	38.7	(48.2)	21.4	21.5
I		iShares MSCI Switzerland Capped Index (EWL)	10.4	20.2	(7.3)	13.7	25.9	(29.8)	27.9	27.7
I		iShares MSCI Sweden Index (EWD)	3.1	22.1	(15.9)	33.6	64.1	(49.7)	19.5	19.7
		Foreign Stock: Latin America Cat Average	(16.2)	13.7	(20.3)	28.5	94.5	(48.8)	(7.1)	(6.9)
I		iShares MSCI Mexico Capped (EWW)	(6.0)	31.3	(12.3)	27.5	55.7	(41.7)	7.4	7.2
I		Global X FTSE Colombia 20 ETF (GXG)	(16.7)	25.5	(14.8)	49.9	—	—	(7.4)	(7.1)
		Foreign Stock: Pacific/Asia Cat Average	(3.0)	19.0	(20.2)	15.8	56.4	(43.0)	9.6	8.6
I		iShares MSCI Thailand Capped Invstbl Mkt (THD)	(0.6)	37.7	(4.2)	56.2	84.0	—	19.4	16.3
I		iShares MSCI Malaysia (EWM)	5.0	13.6	(0.5)	36.2	51.4	(41.3)	14.4	11.6
		Foreign Stock: Emerging Mkts Cat Average	(8.5)	17.2	(22.0)	20.2	67.8	(50.9)	2.6	1.8
I		PowerShares DWA Em Mkts Technical Ldrs (PIE)	0.1	16.0	(11.4)	24.3	59.6	(62.8)	9.3	6.5
I		WisdomTree Emerging Mkts SmallCap Div (DGS)	(3.4)	22.3	(20.6)	28.9	86.0	(47.1)	11.4	10.5
		General Bond: Short-Term Category Average	0.1	3.5	1.6	3.0	5.0	2.7	1.7	1.9
I		Vanguard Short-Term Corp Bd Idx ETF (VCSH)	(0.5)	5.9	2.9	5.5	—	—	2.2	2.1
I		Guggenheim BulletShares 2014 Corp Bond (BSCE)	0.4	4.2	2.5	—	—	—	2.0	1.8
		General Bond: Interm-Term Cat Average	(2.6)	7.6	6.6	7.6	8.1	3.1	1.2	0.9
I		Vanguard Interm-Tm Corp Bd Idx ETF (VCIT)	(3.5)	11.7	7.9	10.6	—	—	1.8	1.0

Data as of 6/30/2013.

3-Yr Ann'lzd Return (%) NAV	3-Yr Ann'lzd Return (%) Market	Total Return (%) 5-Year Ann'lzd	Total Return (%) Bull* Mkt	Total Return (%) Bear* Mkt	Yield (%)	Tax-Cost Ratio (%)	Risk Index Cat (X)	Risk Index Total (X)	Total Assets ($ Mil)	Avg Daily Trading Volume (Thous)	Portfolio (%) Stock	Portfolio (%) Bond	Portfolio (%) Other	Portfolio (%) Cash	% of Port in Foreign Issues	Port Turnover Ratio (%)	Number of Hldgs	% of Port in Top 10 Hldgs	Exp Ratio (%)
5.5	5.5	(3.1)	111.0	(58.7)	2.8	0.6	1.00	1.86	417	304	99	0	1	1	57.3	21	83	49	0.58
15.3	15.3	1.5	143.1	(56.0)	1.8	0.3	0.88	1.61	749	65	100	0	0	0	3.1	7	136	47	0.14
15.1	15.2	5.2	213.4	(59.1)	2.3	0.6	0.87	1.60	221	77	100	0	0	0	2.6	—	56	31	0.70
(19.6)	(19.3)	(12.3)	(20.1)	(32.9)	3.1	0.6	1.00	2.66	730	2,952	100	0	(0)	0	91.7	13	40	63	0.58
(6.4)	(6.3)	—	—	—	1.7	0.2	1.21	3.17	181	229	100	0	0	0	83.9	—	31	71	0.65
16.9	16.8	6.0	220.5	(64.8)	4.2	1.3	1.00	1.27	1,826	1,734	100	0	0	0	0.4	22	68	52	0.42
19.1	19.1	10.3	243.5	(59.3)	3.1	1.2	0.95	1.19	344	106	100	0	0	0	0.0	28	35	65	0.48
18.2	18.1	8.1	245.9	(64.4)	3.6	1.3	1.01	1.27	17,764	5,548	99	0	0	1	0.0	9	124	43	0.10
14.5	14.9	2.6	155.3	(67.4)	6.0	1.7	1.00	1.50	663	341	97	0	2	1	82.6	11	206	34	0.50
16.6	16.9	4.4	191.3	—	4.5	1.8	0.87	1.29	911	262	97	0	0	2	43.9	8	217	29	0.50
15.8	15.7	3.7	179.9	—	6.3	1.7	0.94	1.38	109	19	99	0	1	0	54.5	4	76	36	0.55
13.5	13.5	6.6	138.1	(52.9)	1.0	0.1	1.00	1.53	677	436	100	0	0	0	20.3	32	84	46	0.53
23.9	23.9	15.3	229.5	(50.6)	0.0	0.0	0.91	1.37	1,052	172	100	0	0	0	0.0	—	41	50	0.60
17.6	17.1	—	—	—	0.9	0.2	1.09	1.64	137	23	100	0	0	0	0.0	14	128	21	0.29
10.9	11.0	1.6	65.9	(39.3)	3.4	1.0	1.00	0.98	615	1,146	99	0	0	1	37.3	17	58	44	0.49
15.4	15.5	3.5	86.0	(38.0)	3.8	0.6	0.81	0.78	1,361	252	100	0	0	0	0.0	5	79	47	0.14
15.2	15.2	2.8	86.3	(39.7)	3.2	0.7	0.81	0.78	1,036	167	100	0	0	0	0.0	5	65	47	0.47
5.6	5.6	(6.4)	23.7	(28.3)	0.0	0.0	1.00	2.02	75	47	12	0	81	6	10.5	1	16	85	0.83
12.9	12.9	(7.6)	35.4	(28.6)	0.0	0.0	1.14	2.27	108	29	—	—	—	—	—	0	—	—	0.75
(3.3)	(3.2)	(21.0)	19.9	(56.9)	0.0	0.0	1.00	1.97	124	470	1	0	102	(3)	0.0	5	10	103	0.99
5.4	5.5	(12.6)	48.0	(43.9)	0.0	0.0	0.76	1.48	229	81	0	0	111	(11)	0.0	—	17	111	0.75
(3.1)	(2.2)	0.8	22.2	6.9	0.0	0.0	1.00	2.60	1,881	1,426	0	0	116	(16)	0.0	0	4	116	0.80
12.3	13.7	—	—	—	0.0	0.0	0.83	2.13	513	157	0	0	100	0	0.0	—	1	100	0.60
(2.8)	(3.1)	(11.9)	30.6	(50.5)	0.0	0.0	1.00	1.96	288	112	6	(2)	74	21	4.3	0	19	74	0.80
5.0	5.2	(10.7)	30.9	(33.9)	0.0	0.0	0.70	1.34	6,067	2,356	0	0	102	(2)	0.0	0	30	85	0.85
9.9	9.9	3.9	78.9	(30.3)	2.3	0.8	1.00	0.66	78	31	54	29	3	13	19.1	20	107	77	0.56
14.9	14.8	—	115.4	—	2.1	0.5	1.58	1.02	150	34	80	12	1	7	26.0	12	10	100	0.32
4.8	4.7	—	79.0	—	2.5	0.4	1.00	0.51	80	29	58	26	2	15	36.4	103	26	73	1.07
11.0	10.7	—	79.0	—	2.1	0.6	1.31	0.67	200	45	59	29	1	11	20.2	5	10	100	0.31
11.5	11.6	1.9	110.7	(56.5)	3.5	1.0	1.00	1.24	620	172	92	0	8	1	55.6	17	690	26	0.54
14.5	14.4	3.3	117.9	—	2.6	0.6	0.99	1.21	577	19	98	0	2	0	39.3	5	1,275	10	0.25
12.8	13.1	2.5	96.2	(51.7)	2.7	0.6	0.99	1.21	1,256	93	98	0	0	2	47.6	5	110	29	0.40
8.9	9.3	0.0	98.7	(57.1)	3.1	1.0	1.00	1.45	1,588	630	98	0	1	1	96.7	29	827	17	0.48
12.8	13.1	3.1	126.2	(59.5)	4.8	1.5	0.89	1.27	554	61	99	0	1	0	99.3	56	887	5	0.58
12.3	12.6	2.4	129.7	—	3.1	0.9	0.97	1.39	2,018	376	98	0	1	0	98.3	16	1,337	3	0.40
12.0	12.1	1.7	130.4	(61.7)	2.2	1.2	0.81	1.16	875	245	100	0	1	(0)	81.3	46	61	34	0.56
9.1	9.6	(2.6)	87.1	(60.9)	2.7	0.9	1.00	1.76	610	570	99	0	1	1	98.7	14	99	48	0.53
14.9	15.4	5.8	122.2	(46.4)	2.1	0.5	0.74	1.29	902	912	100	0	0	0	99.9	8	41	73	0.53
12.2	13.1	6.0	171.2	(61.5)	3.4	0.8	1.13	1.95	365	341	100	0	0	0	99.9	7	34	61	0.53
0.1	0.0	(3.8)	116.8	(56.6)	3.1	0.8	1.00	1.86	523	1,325	92	0	8	0	88.9	31	62	50	0.66
11.9	12.3	4.1	188.0	(59.3)	1.0	0.3	0.88	1.61	2,267	4,550	99	0	1	0	98.9	10	50	63	0.53
4.6	4.6	—	182.5	—	2.5	0.5	0.81	1.48	136	216	86	0	14	1	85.7	62	27	68	0.68
3.8	4.0	2.4	113.3	(55.7)	2.6	0.6	1.00	1.73	687	1,782	98	0	1	1	97.5	19	162	44	0.64
22.4	22.5	16.0	309.1	—	2.4	0.6	1.07	1.83	786	437	99	0	0	1	98.7	12	111	52	0.61
14.0	14.2	11.8	153.6	(41.3)	2.4	1.1	0.66	1.12	978	1,912	99	0	1	0	98.8	24	44	53	0.53
1.8	1.8	(1.2)	95.6	(59.4)	3.0	0.8	1.00	1.76	1,733	2,314	98	0	2	1	97.4	32	267	38	0.62
10.1	9.6	(2.7)	148.0	—	0.5	0.3	0.88	1.54	355	727	99	0	1	0	97.7	181	113	24	0.90
7.8	8.2	7.3	142.4	(54.8)	3.9	1.3	0.87	1.52	1,507	323	100	0	0	0	99.8	44	574	9	0.64
2.1	2.1	2.4	11.6	4.7	1.2	0.5	1.00	0.10	2,772	473	0	71	1	27	15.0	48	494	15	0.22
3.5	3.5	—	—	—	2.0	0.9	1.77	0.17	6,176	845	0	97	0	2	19.2	65	1,410	4	0.12
3.2	3.0	—	—	—	1.4	0.6	1.69	0.17	270	97	0	39	0	61	6.9	—	230	10	0.24
4.4	4.3	5.5	31.0	3.4	2.4	1.2	1.00	0.27	2,242	266	0	92	5	4	15.0	98	1,331	28	0.25
6.5	6.2	—	—	—	3.3	1.4	1.42	0.39	3,238	482	0	99	0	1	15.0	69	1,351	4	0.12

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

Index / Enhanced / ETN	ETF Name (Ticker)	NAV Total Return (%) YTD	2012	2011	2010	2009	2008	12-Month Return (%) NAV	Market
I	Guggenheim BulletShares 2017 Corp Bond (BSCH)	(1.5)	10.7	4.5	—	—	—	3.3	3.1
	General Bond: Long-Term Category Average	(5.7)	11.0	15.4	10.2	6.9	4.1	(1.0)	(2.5)
I	Vanguard Long-Term Corp Bond Idx ETF (VCLT)	(7.1)	12.7	15.9	11.2	—	—	(1.0)	(2.7)
	Convertible Category Average	7.6	15.1	(6.5)	14.0	—	—	17.6	18.3
I	SPDR Barclays Capital Convertible Secs (CWB)	7.6	15.2	(6.6)	14.0	—	—	17.6	18.3
	Corporate Bond: High-Yield Category Average	0.6	13.3	4.5	11.9	41.4	(29.1)	7.6	7.2
I	SPDR Barclays High Yield Bond (JNK)	(0.0)	14.3	4.7	14.1	50.8	(30.3)	7.7	6.8
	Inflation-Protected Bond Category Average	(4.6)	5.6	12.6	6.0	11.2	(2.4)	(3.6)	(3.6)
I	PIMCO 15+ Year US TIPS Index ETF (LTPZ)	(14.9)	11.8	25.4	8.5	—	—	(11.3)	(11.4)
	Gov't Bond: Short-Term Category Average	(0.2)	0.3	2.8	1.3	0.2	3.7	0.0	0.0
I	Vanguard Short-Term Govt Bd Idx ETF (VGSH)	(0.1)	0.4	1.5	2.2	—	—	0.2	0.3
	Gov't Bond: Interm-Term Cat Average	(4.1)	4.0	16.1	9.1	(0.6)	12.2	(3.2)	(3.4)
I	Vanguard Interm-Tm Govt Bd Idx ETF (VGIT)	(2.3)	2.8	9.7	6.9	—	—	(1.5)	(1.6)
	Gov't Bond: Long-Term Category Average	(10.3)	3.7	44.8	10.1	(16.1)	28.8	(11.4)	(11.7)
I	Vanguard Extended Dur Trs Idx ETF (EDV)	(11.8)	3.2	55.8	10.3	(36.7)	55.4	(14.2)	(14.4)
	Muni Nat'l Bond: Short-Term Cat Average	(0.1)	1.0	3.1	1.1	4.3	4.2	0.1	0.1
I	Market Vectors Short Municipal Index ETF (SMB)	(0.8)	2.0	4.5	2.2	6.7	—	(0.1)	0.0
	Muni Nat'l Bond: Interm-Term Cat Average	(2.5)	4.0	8.6	2.3	10.7	(0.6)	(0.6)	(2.3)
I	Market Vectors Intermediate Muni ETF (ITM)	(3.8)	6.1	12.6	2.4	10.7	(0.6)	(0.9)	(2.9)
	Muni Nat'l Bond: Long-Term Cat Average	(5.5)	9.9	17.3	2.3	14.3	(4.3)	(1.9)	(2.7)
I	PowerShares Build America Bond (BAB)	(4.5)	11.4	20.9	9.3	—	—	(0.0)	(0.4)
	Muni Nat'l Bond: High Yield Category Average	(4.3)	16.7	9.4	2.6	—	—	1.6	0.1
I	Market Vectors High-Yield Muni ETF (HYD)	(4.2)	16.7	9.4	2.6	—	—	0.9	(0.3)
	International Bond: General Category Average	(4.1)	14.0	0.8	2.7	13.9	4.4	3.5	3.8
I	SPDR DB Intl Govt Infl-Protected Bond (WIP)	(8.0)	14.0	2.5	6.8	18.5	—	0.7	1.3
I	PowerShares International Corporate Bond (PICB)	(5.3)	16.4	1.5	—	—	—	5.8	5.3
	International Bond: Emerging Cat Average	(5.6)	12.8	2.8	11.5	30.2	(13.2)	2.2	1.2
I	PowerShares Emerging Mkts Sovereign Debt (PCY)	(10.8)	21.0	8.2	11.7	33.4	(14.7)	(0.3)	(0.9)
	Currency Category Average	(4.0)	0.7	(1.8)	3.7	7.8	(6.1)	(2.8)	(2.8)
I	CurrencyShares Australian Dollar Trust (FXA)	(10.9)	4.3	4.0	18.0	32.1	(15.9)	(8.6)	(8.5)
I	PowerShares DB G10 Currency Harvest (DBV)	(2.7)	9.7	0.4	0.9	20.6	(27.8)	3.2	3.3

**Bull market is defined as 3/1/2009 through 6/30/2013. Bear market is defined as 11/1/2007 through 2/28/2009.*
Source: "The Individual Investor's Guide to Exchange-Traded Funds 2013," August 2013 AAII Journal. *Data from Morningstar Inc. is through June 30, 2013.*
Go to www.aaii.com/guides/etf-guide for the complete list of ETFs covered by AAII.

tions below $10 billion. Inclusion of companies into the underlying index is based on a proprietary scoring system that considers several growth-oriented factors. The emphasis on growth would explain why the fund has performed well during the ongoing bull market, but lagged during the previous bear market.

How Rising Yields Affected Bonds

The best-performing bond ETFs mostly realized single-digit annualized returns over the past three years. Adversely affecting their performance was this year's rise in interest rates, which increased yields and lowered bond prices. Though this fact may not be surprising, the other trend we noticed might be.

Many of the top-performing bond funds experienced differences between their 12-month net asset value (NAV) return and their 12-month market (share price) return. For example, the SPDR Barclays High Yield Bond fund (JNK) realized a total return of 7.7% on a NAV basis, but just 6.8% on a market basis. The Market Vectors Intermediate Muni ETF (ITM) lost 0.9% on a NAV basis, but fell by 2.9% on a market basis.

The separation in performance has to do with the underlying liquidity of these fund's holdings. As institutional investors and market makers react to rising yields by redeeming ETF creation units (large blocks of ETF shares), ETF sponsors can find themselves in the position of having to sell bonds into difficult market conditions. A report issued by Fitch Ratings last month noted that "the only heightened incidence of ETF discounts occurred in this most recent quarter, given the fixed-income market pressures experienced in May and June."

This occurrence demonstrates the importance of considering how closely the market return and the NAV return match. Notable differences between the two can point to lower levels of liquidity in the underlying assets. As is the case with closed-end funds, mispricings can create opportunities and risks. Share prices below NAV imply you are paying less than a dollar for a dollar's worth of assets. Share prices above NAV imply you are paying more than a dollar for a dollar's worth of assets. Differences between the market price return and NAV return imply the fund is performing better or worse than the underlying value of its assets.

Caveats & Notes

A three-year period has been used for ETFs because many exchange-traded funds still lack five-year histories.

Data as of 6/30/2013.

3-Yr Ann'lzd Return (%) NAV	3-Yr Ann'lzd Return (%) Market	Total Return (%) 5-Year Ann'lzd	Total Return (%) Bull* Mkt	Total Return (%) Bear* Mkt	Yield (%)	Tax-Cost Ratio (%)	Risk Index Cat (X)	Risk Index Total (X)	Total Assets ($ Mil)	Avg Daily Trading Volume (Thous)	Portfolio (%) Stock	Portfolio (%) Bond	Portfolio (%) Other	Portfolio (%) Cash	% of Port in Foreign Issues	Port Turnover Ratio (%)	Number of Hldgs	% of Port in Top 10 Hldgs	Exp Ratio (%)
5.7	5.7	—	—	—	2.3	1.1	1.25	0.34	267	67	0	100	0	0	16.9	—	256	13	0.24
6.9	6.7	7.8	48.5	(1.0)	3.8	1.7	1.00	0.65	1,993	380	0	98	0	2	16.8	21	655	12	0.16
7.7	7.4	—	—	—	4.8	1.8	1.08	0.69	790	140	0	99	0	1	14.1	71	1,204	5	0.12
10.5	10.6	—	—	—	3.9	1.5	1.00	0.79	1,225	553	1	3	94	2	0.0	17	96	30	0.40
10.5	10.6	—	—	—	3.9	1.5	1.00	0.79	1,225	553	1	3	94	2	0.0	17	96	30	0.40
9.4	9.4	6.7	91.3	(24.1)	5.0	2.4	1.00	0.56	1,392	1,122	0	78	10	12	10.9	24	213	334	0.58
10.0	10.1	8.3	110.9	—	6.6	2.8	1.15	0.63	9,379	11,358	0	99	0	1	16.6	38	627	5	0.40
4.3	4.3	4.2	32.7	0.9	0.7	0.7	1.00	0.47	1,377	206	(0)	89	(19)	30	(0.5)	28	17	170	0.35
6.5	6.4	—	—	—	0.6	0.8	1.89	0.89	105	65	0	99	0	1	0.0	11	9	99	0.20
0.4	0.4	0.7	1.8	4.7	0.1	0.1	1.00	0.02	1,911	616	0	70	0	30	0.0	146	55	28	0.19
0.7	0.7	—	—	—	0.3	0.2	2.00	0.04	273	62	0	99	0	1	0.0	72	104	28	0.12
4.9	4.8	4.1	13.2	13.6	0.8	0.6	1.00	0.50	308	227	0	109	17	(26)	32.3	171	76	81	0.35
3.4	3.4	—	—	—	1.4	0.8	0.57	0.28	143	56	0	99	0	1	0.0	51	162	25	0.12
6.9	7.0	7.2	27.0	17.0	1.7	0.9	1.00	1.58	643	943	0	93	31	(24)	0.3	54	29	89	0.39
8.6	8.4	9.2	29.5	—	3.6	1.8	1.22	1.91	156	25	0	100	0	0	0.0	47	61	22	0.12
1.4	1.4	2.3	8.1	8.4	0.8	0.0	1.00	0.09	331	128	0	88	0	12	0.0	17	282	23	0.26
2.1	2.1	3.5	13.4	—	1.5	0.0	1.58	0.14	218	129	0	95	0	5	0.0	10	292	14	0.20
3.3	2.7	5.3	16.0	—	2.0	0.0	1.00	0.29	166	93	0	98	0	2	0.0	6	261	21	0.32
4.4	3.8	5.4	25.1	—	2.6	0.0	1.45	0.42	683	471	0	100	0	0	0.0	1	772	6	0.24
5.6	5.3	4.7	28.6	0.4	4.2	0.6	1.00	0.52	725	306	0	98	1	1	1.3	29	473	23	0.44
8.4	8.1	—	—	—	5.1	1.9	1.09	0.55	907	570	0	99	0	1	0.0	2	320	17	0.28
6.1	5.5	—	55.1	—	5.1	0.0	1.00	0.47	575	565	0	99	(0)	1	0.0	24	296	13	0.39
6.1	5.5	—	55.1	—	5.3	0.1	1.00	0.47	932	984	0	99	(0)	1	0.0	—	324	16	0.35
4.4	4.2	1.2	26.8	(3.6)	1.8	0.9	1.00	0.80	172	51	0	89	5	6	75.4	59	155	32	0.50
6.7	6.9	1.9	48.0	—	3.8	1.2	1.02	0.80	1,191	236	0	93	6	0	93.4	40	97	27	0.50
6.7	6.5	—	—	—	3.2	1.2	1.11	0.86	145	98	0	96	4	(0)	96.4	12	316	11	0.50
6.8	6.7	8.1	68.7	(14.8)	4.3	1.7	1.00	0.66	671	357	0	90	4	6	87.3	27	136	25	0.51
7.0	6.9	8.5	72.5	(14.8)	5.0	1.8	1.06	0.69	1,963	1,998	0	100	0	0	99.8	4	68	19	0.50
0.4	0.5	(1.1)	10.5	(10.9)	0.3	0.3	1.00	0.82	108	153	0	1	9	90	0.5	0	5	10	0.60
6.1	6.2	2.4	63.6	(26.0)	2.7	1.2	1.39	1.12	422	347	0	0	0	100	0.0	0	1	0	0.40
5.0	5.3	(0.9)	33.6	(32.0)	0.0	0.0	0.96	0.78	259	235	0	0	0	100	0.0	0	15	0	0.75

Though many large-cap domestic stock ETFs have been around for longer than five years, too many funds from other categories would have been excluded had we required five years of return history instead of three.

I do eventually intend to change from a three-year to a five-year period to provide a closer comparison with the annual listing of the best-performing mutual funds ("The Top Mutual Funds Over Five Years: The Bear's Claw Marks Remain," March 2013 *AAII Journal*). The comparisons will not be completely similar, however, because of the six-month difference in the time periods analyzed. Though seemingly short, it can make a difference in terms of which fund categories are represented in the top-10 lists. Keep in mind that a six-month shift not only picks up six new months of performance, it also drops six months of older performance. (We use this split to keep the top fund data comparable between the ETF guide, which is published in July, and the mutual fund guide, which is published in February.)

The top-performing funds for nearly every category are now displayed, matching the format of last issue's ETF Guide. This is a change from last year, when some of the categories were combined. Due to the growth and maturity of the ETF industry, there are now enough funds to justify the more detailed breakdown.

The overwhelming majority of exchange-traded funds continue to be passively managed. Though there are some actively managed ETFs, most have not gathered significant levels of assets under management (AUM). They also are relatively new, with limited investment histories. This is why the largest actively managed exchange-traded fund, PIMCO Total Return fund (BOND), will be excluded for a few more years even though it had more than $4.1 billion in AUM as of June 30, 2013. (The fund was incepted in February 2012).

Nonetheless, there are enough similarities between ETFs and mutual funds to warrant considering both when purchasing a fund. Mutual fund and exchange-traded fund returns are significantly influenced by broad market, asset preference and category-specific trends. In some cases, passive strategies are the best way to take advantage of these trends, favoring ETFs. In other cases, active management is better, favoring mutual funds. Looking at the longer-term performance of both types of investments makes the decision process easier by dampening the short-term market noise that can distort the numbers.

Always keep in mind that fund analysis involves more than just looking at total return. Performance relative to a fund's peers, the fund's volatility, the composition of the fund, the strategy used, expenses and size are all important factors. Proper diversification is also very important; you need to seek out the fund or security that best fulfills your diversification needs. Furthermore, look at the fund's portfolio, the index it is designed to follow and the weighting strategy used. An ETF's risk cannot be judged by the fund's name alone.

Which Funds Were Included

I largely restricted the list of top ETFs to those with three years of annual return data and a minimum of $250 million in assets. (Exceptions were made when the performance of a smaller fund warranted it.) 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 26 through 31 shows the top ETFs by category. Three-year performance was calculated through June 30, 2013, to match the statistics displayed in "The Individual Investor's Guide to Exchange-Traded Funds 2013," which was published in the August 2013 *AAII 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 June 30, 2013) and bear market (November 1, 2007, through February 28, 2009), where available. 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. Twelve-month and three-year annual total returns based on market value are also displayed to show how closely each fund's price performance matches its net asset value performance. The bigger the difference, the larger the premium or discount shares of the fund have traded at over the period.

The online version of this article, available on AAII.com, contains a list of the 50 top-performing funds, as opposed to the top 10 displayed in the print edition.

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.

You should also 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. You cannot safely navigate a winding road by only using a rear-view mirror. Country-specific ETFs can allow you to target specific markets, but can be more 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 and information about the underlying index. Many index providers also give more detailed information about their indexes on their own websites. (Type in the index's name into an Internet search engine, such as Google, to find the specific website.)

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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