The Top ETFs Over Three Years: Health Care Takes Top Four Spots

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Article Highlights

- Sector and industry ETFs have eight of the top 10 spots, with health care funds dominant.
- The only non-sector funds in the top-10 rankings track IPOs and spin-offs.
- Two homebuilders sector ETFs demonstrate the importance of looking beyond a fund's name and its annualized returns.

A few notable things stand out in this year's list of the exchange-traded funds (ETFs) with the best three-year returns.

First, six of the funds in this year's top-10 list are holdovers from last year. Second, health care funds control the top four spots and six of top 10 spots in this year's list. Third, PowerShares Dynamic Pharmaceuticals (PJP) ranks in the top 10 for the third consecutive year. Fourth, SPDR S&P Retail ETF (XRT) fell out of the top-10 ranking for the first time since we started compiling the list in 2011.

After having a fairly diversified group of stock funds in last year's top-10 rankings, this year's list is fairly concentrated. In addition to the six health care funds (three of which are biotech ETFs), two funds target companies involved in the housing sector. The only two non-sector funds making the top-10 list are First Trust US IPO Index (FPX) and Guggenheim Spin-Off (CSD).

There was a small shift at the very top, with iShares Nasdaq Biotechnology (IBB) moving from number two to number one and PowerShares Dynamic Pharmaceuticals slipping from the top spot to number two. The shift reflects the comparatively stronger returns realized by iShares Nasdaq Biotechnology in 2012 and 2013. The two funds both list Gilead Sciences (GILD) among their largest holdings, but their portfolios differ from there. The iShares ETF follows a modified market-cap-weighted index that tracks the performance of NASDAQ-listed biotechnology stocks. The PowerShares ETF follows a tier-weighted index based on factors such as price momentum, earnings momentum, quality, management and valuation. This index tracks the performance of 30 big, specialty and generic pharmaceutical companies.

PowerShares Dynamic Pharmaceuticals realized higher performance during the first three calendar years of the current bull market, while iShares Nasdaq Biotechnology performed better in the most recent two years. However, during the first six months of 2014, the PowerShares fund took back the short-term performance bragging rights. The altering performance differential is a reflection of changing attitudes about risk. Investors tend to be cautious during the early stages of a bull market, but gain confidence and become more risk-seeking as the bull market continues. Earlier this year, we saw a drop in risk tolerances as investors became more concerned about the potential for a drop in stock prices.

Weighting methodologies also play a role. Three of the four top ETFs track alternatively weighted indexes. The PowerShares fund, as just noted, follows a factor-weighted index. SPDR S&P Pharmaceuticals (XPH) and SPDR S&P Biotech (XBI) follow equal-market-cap-weighted indexes. These types of indexes allocate a greater percentage to smaller companies, which helps boost relative performance. They can also, however, lead to different, and potentially worse, returns than a traditional market-cap-weighted index. (Market-cap-weighted indexes allocate based on the relative size of each company's market capitalization, with larger companies having bigger weightings.) I point this out to show the importance of understanding what index a fund follows. ETFs cannot simply be judged based on their names alone.

One odd characteristic about this list of top-10 performers is a similarity in the inception dates: Eight of out of the 10 funds were launched in 2006. This is purely coincidental. Unlike fine wines, funds cannot be judged based on the year they were created. (Last year's top-10 list contained funds with inception dates ranging from 2000 to 2010.)

Don't Overlook Year-by-Year Returns

A multi-year return figure smoothes out the fluctuations of annual returns. It also better highlights funds with consistent performance, while penalizing funds that were hot for just one year. Multi-year return numbers are, however, influenced by how a fund performed over each year in the measured period. Therefore, it is important to not only look at the three-year return figure, but also the individual annual returns that it is composed of.

IShares US Home Construction (ITB) and SPDR S&P Homebuilders (XHB) are good examples as to why. The ETFs, which rank fifth and 10th in terms of three-

Table 1. Top ETFs Over Three Years

Data as of 6/30/2014.

Index	Enhanced ETN	ETF Name (Ticker)	NAV Total Return (%)						12-Month Return (%)		3-Yr Ann'lzd Return (%)		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 (%)
			YTD	2013	2012	2011	2010	2009	NAV	Market	NAV	Market	5-Year Ann'lzd	Bull* Mkt	Bear* Mkt			Cat (X)	Total (X)			Stock	Bond	Other	Cash					
		Overall Three-Year Top Performers																												
I		iShares Nasdaq Biotechnology (IBB)	13.4	65.5	32.0	11.9	14.9	15.5	48.1	48.0	34.3	34.4	29.0	313.1	(27.3)	0.2	0.1	1.24	1.57	5,251	1,028	100	0	0	0	5.7	39	122	56	0.48
I		PowerShares Dynamic Pharmaceuticals (PJP)	14.5	55.6	24.7	19.8	27.8	16.9	45.3	45.2	32.7	32.8	33.0	373.2	(28.1)	0.4	0.4	0.87	1.10	1,166	118	100	0	0	0	6.0	39	29	47	0.63
I		SPDR S&P Pharmaceuticals ETF (XPH)	18.2	60.7	11.0	12.8	22.3	28.1	50.4	50.3	28.9	28.9	30.0	339.8	(24.5)	0.5	0.6	0.95	1.20	949	67	100	0	0	0	6.4	44	35	33	0.35
I		SPDR S&P Biotech ETF (XBI)	18.8	48.5	32.9	5.3	17.6	0.5	48.6	48.8	28.7	28.6	25.1	235.2	(22.2)	0.7	0.1	1.80	2.28	1,109	516	100	0	0	0	2.6	61	79	16	0.35
I		iShares US Home Construction (ITB)	(0.1)	17.8	78.9	(8.9)	10.4	21.1	11.2	11.1	25.7	25.6	21.1	244.5	(63.4)	0.2	0.1	1.05	2.04	1,769	3,103	100	0	0	0	1.0	23	37	62	0.46
I		iShares US Pharmaceuticals (IHE)	15.4	40.5	13.4	21.2	12.6	30.5	37.7	37.4	24.5	24.4	25.7	282.3	(29.2)	1.2	0.3	0.81	1.02	744	25	100	0	0	0	8.1	31	41	59	0.46
I		First Trust US IPO Index (FPX)	6.6	48.0	30.0	3.1	18.3	45.0	35.1	34.4	24.4	24.4	26.2	313.0	(51.4)	0.7	0.4	1.27	1.30	486	53	100	0	0	0	5.1	—	101	47	0.60
I		Guggenheim Spin-Off (CSD)	3.0	51.8	27.0	3.8	21.9	64.2	25.6	25.6	24.1	24.1	28.2	363.6	(63.0)	0.2	0.1	0.98	1.24	702	90	100	0	0	0	9.5	32	33	46	0.65
I		First Trust NYSE Arca Biotech Index (FBT)	19.1	50.1	40.9	(16.4)	36.9	44.9	41.6	41.5	23.4	23.4	31.2	353.7	(29.7)	0.0	0.0	1.57	2.00	1,309	119	100	0	0	0	5.3	—	21	56	0.60
I		SPDR S&P Homebuilders ETF (XHB)	(0.2)	25.5	57.5	(0.9)	17.5	26.9	13.0	13.1	23.4	23.3	24.2	278.2	(57.2)	1.6	0.5	0.96	1.86	1,849	4,728	100	0	0	0	3.0	36	36	32	0.35
		Large-Cap Stock Category Average	6.8	32.1	14.8	2.7	15.9	28.8	23.6	23.3	16.1	16.1	19.1	208.5	(50.4)	1.6	0.6	1.00	1.03	4,035	920	98	0	0	1	2.6	24	459	27	0.40
I		First Trust US IPO Index (FPX)	6.6	48.0	30.0	3.1	18.3	45.0	35.1	34.4	24.4	24.4	26.2	313.0	(51.4)	0.7	0.4	1.27	1.30	486	53	100	0	0	0	5.1	—	101	47	0.60
I		PowerShares Buyback Achievers (PKW)	4.6	45.6	13.8	10.0	18.0	31.2	27.1	27.3	19.7	19.8	22.8	259.4	(49.2)	0.8	0.4	0.98	1.01	2,930	466	100	0	0	0	0.0	91	177	36	0.71
I		PowerShares QQQ (QQQ)	7.7	36.6	18.1	3.4	19.9	54.5	33.8	33.8	19.6	19.6	22.2	260.2	(49.7)	1.4	0.5	1.10	1.14	43,744	27,005	100	0	0	0	3.5	15	102	48	0.20
I		Guggenheim S&P 500 Pure Growth (RPG)	10.4	43.3	15.0	0.4	27.1	50.2	34.3	34.5	18.4	18.4	24.7	300.9	(49.2)	0.7	0.3	1.24	1.28	1,418	109	100	0	0	0	2.4	44	109	19	0.35
I		iShares Morningstar Large-Cap (JKD)	6.7	34.1	17.3	3.2	12.7	21.3	21.2	20.6	18.1	18.1	18.8	197.8	(47.2)	1.9	0.4	0.94	0.96	490	10	100	0	0	0	2.1	35	98	36	0.20
		Mid-Cap Stock Category Average	7.5	36.0	16.0	(0.9)	24.5	37.6	26.5	26.5	15.5	15.5	21.6	251.9	(53.1)	1.1	0.4	1.00	1.27	1,920	124	100	0	0	0	2.7	45	397	14	0.40
I		Guggenheim Spin-Off (CSD)	3.0	51.8	27.0	3.8	21.9	64.2	25.6	25.6	24.1	24.1	28.2	363.6	(63.0)	0.2	0.1	0.98	1.24	702	90	100	0	0	0	9.5	32	33	46	0.65
I		Guggenheim S&P 500 Pure Value (RPV)	10.2	47.5	25.0	(1.2)	22.5	54.1	35.4	35.5	22.2	22.1	28.5	474.1	(68.3)	1.3	0.6	1.09	1.39	1,160	235	100	0	0	0	2.5	24	119	19	0.35
I		WisdomTree MidCap Earnings (EZM)	7.5	40.2	17.8	1.4	25.5	49.6	29.8	29.7	18.0	17.9	24.4	312.4	(50.6)	0.9	0.5	1.05	1.34	583	22	100	0	0	0	0.7	—	607	7	0.38
I		WisdomTree MidCap Dividend (DON)	10.7	33.0	14.8	5.1	21.7	32.0	27.9	27.7	17.8	17.8	24.3	284.7	(53.5)	2.2	1.1	0.82	1.05	1,151	51	100	0	0	0	0.0	—	391	11	0.38
I		PowerShares Hi-Yield Eq Div Achievers (PEY)	10.1	30.4	6.5	8.7	20.6	3.7	23.8	23.7	17.8	17.8	21.0	233.2	(64.2)	3.2	1.5	0.63	0.80	442	129	100	0	0	(0)	0.0	51	50	27	0.57
		Small-Cap Stock Category Average	3.6	39.7	17.0	(1.9)	26.5	35.9	24.5	24.5	15.8	15.8	21.7	276.4	(53.9)	1.1	0.4	1.00	1.38	1,818	890	100	0	0	0	1.1	38	693	9	0.30
I		Guggenheim S&P SmallCap 600 Pure Value (RZV)	2.8	45.1	21.3	(7.8)	28.1	67.1	26.7	26.8	18.2	18.3	21.9	460.2	(67.1)	0.6	0.3	1.19	1.65	185	17	100	0	0	0	0.0	43	151	16	0.35
I		iShares S&P Small-Cap 600 Value (IJS)	4.3	39.7	18.1	(1.5)	24.4	22.7	25.1	25.2	17.7	17.7	21.5	245.0	(51.3)	1.3	0.4	0.99	1.36	3,200	119	100	0	(0)	0	0.1	38	444	8	0.30
I		WisdomTree SmallCap Dividend (DES)	4.5	36.9	18.4	(1.8)	26.6	21.2	23.0	23.2	17.5	17.5	22.5	276.8	(55.4)	2.5	1.3	0.86	1.19	1,085	55	100	0	0	0	0.4	—	682	10	0.38
I		Vanguard Small Cap Value ETF (VBR)	8.4	36.6	18.8	(4.1)	25.0	30.5	28.2	28.4	17.1	17.2	22.1	267.5	(53.1)	1.7	0.6	0.95	1.31	4,437	148	100	0	0	0	1.6	47	813	5	0.09
I		Guggenheim S&P MidCap 400 Pure Value (RFV)	6.5	38.3	19.0	(5.5)	22.5	58.5	25.6	25.2	16.9	16.9	24.2	364.8	(63.5)	1.0	0.5	0.99	1.37	110	9	100	0	0	0	0.9	28	95	22	0.38
		Micro-Cap Stock Category Average	1.2	45.0	19.0	(11.9)	25.4	18.7	23.5	24.1	14.8	14.8	18.4	207.5	(58.7)	1.1	0.5	1.00	1.53	284	38	100	0	0	0	3.3	59	755	5	0.69
I		Wilshire Micro-Cap ETF (WMCR)	3.6	48.1	21.3	(15.8)	24.2	18.0	26.2	27.6	15.8	15.8	19.1	209.6	(60.8)	1.2	0.8	0.97	1.49	56	24	100	0	0	0	0.4	27	1,004	5	0.53
I		iShares Micro-Cap (IWC)	1.3	45.4	19.4	(9.5)	28.8	24.8	24.8	24.7	15.7	15.8	19.7	231.5	(57.5)	1.0	0.3	0.97	1.47	955	64	99	0	0	1	1.2	26	1,376	2	0.72
		Preferred Stock Category Average	9.8	(1.4)	15.9	0.0	14.2	33.0	8.3	8.9	6.5	6.5	11.6	205.5	(58.4)	6.1	2.3	1.00	0.57	1,598	345	12	8	79	1	10.7	45	125	26	0.50
I		PowerShares Preferred (PGX)	11.4	(1.8)	14.5	3.3	12.2	19.3	8.7	9.3	7.3	7.4	10.8	157.3	—	6.1	2.5	0.81	0.45	2,203	686	16	0	84	(0)	9.2	—	203	26	0.50
I		PowerShares Financial Preferred (PGF)	10.4	(0.9)	20.7	(1.6)	16.5	40.5	8.5	8.4	7.1	7.1	12.3	259.8	(62.5)	6.0	2.5	1.22	0.69	1,430	206	20	0	80	(0)	15.6	30	81	36	0.64
		Long-Short Category Average	3.4	8.7	2.9	0.0	5.9	25.1	7.7	8.5	5.0	5.3	9.7	90.3	(36.7)	0.7	0.3	1.00	0.80	59	23	56	4	(8)	48	9.3	153	229	55	0.91
I		PowerShares S&P 500 BuyWrite (PBP)	5.3	12.4	4.4	4.8	4.9	24.7	13.3	14.0	8.3	8.5	9.6	88.2	—	6.9	2.8	1.00	0.79	292	127	101	0	(1)	0	1.8	32	501	17	0.75
		Market Volatility Category Average	(18.2)	(25.2)	(18.1)	(21.0)	(43.0)	—	(22.9)	(23.0)	(34.6)	(34.5)	(47.6)	(94.0)	—	0.0	0.0	1.00	4.70	148	3,038	29	0	46	25	29.3	0	4	125	1.10
I	N	VelocityShares Daily Inverse VIX ST ETN (XIV)	31.0	105.3	159.0	(46.2)	—	—	126.4	125.1	34.9	35.0	—	—	—	0.0	0.0	1.20	5.65	525	7,475	—	—	—	—	—	—	—	—	1.35
		Communications Sector Category Average	4.2	33.1	12.8	(2.7)	15.9	29.5	23.0	23.1	11.0	11.0	16.0	166.0	(51.2)	4.5	1.0	1.00	1.27	247	70	99	0	0	1	24.3	42	86	54	0.38
I		Vanguard Telecom Services ETF (VOX)	5.1	24.3	16.5	(2.3)	19.6	29.6	15.9	15.9	11.1	11.1	15.8	153.3	(47.5)	3.7	0.9	0.83	1.05	712	53	100	0	0	0	0.5	19	33	71	0.14
		Consumer Discretionary Sector Cat Average	0.6	40.0	21.8	2.0	29.1	44.9	19.9	19.7	17.9	17.9	23.5	294.7	(51.1)	0.9	0.4	1.00	1.33	565	353	99	0	0	0	20.0	45	130	35	0.44
I		iShares US Consumer Services (IYC)	1.9	41.5	23.6	6.7	23.2	33.1	21.7	21.5	20.6	20.6	24.1	263.7	(45.7)	0.9	0.2	0.79	1.05	445	34	100	0	0	0	1.2	5	189	37	0.46
		Consumer Staples Sector Category Average	6.0	30.6	11.1	9.7	17.6	21.3	18.7	18.4	15.2	15.2	18.4	176.6	(32.4)	1.6	0.6	1.00	0.90	1,062	723	99	0	0	0	13.4	32	72	51	0.41
I		First Trust Consumer Staples AlphaDEX (FXG)	12.6	41.9	9.4	13.1	19.8	27.2	30.9	30.8	18.4	18.4	23.0	230.5	(35.1)	1.3	0.6	1.17	1.05	1,363	565	100	0	0	(0)	0.0	—	37	46	0.70
		Energy Sector Category Average	14.3	30.3	(0.2)	(11.8)	12.5	40.8	30.9	30.9	7.1	7.1	10.0	131.9	(56.3)	2.4	0.9	1.00	1.95	856	409	98	1	1	0	30.2	36	62	48	1.15
I	N	Credit Suisse Cushing 30 MLP Index ETN (MLPN)	16.8	38.9	0.5	10.2	—	—	26.1	24.8	19.6	19.5	—	—	—	3.7	1.9	0.60	1.16	923	180	—	—	—	—	—	—	—	—	0.85
I	N	UBS E-TRACS Alerian MLP Infrastrctr ETN (MLPI)	15.2	27.8	3.4	15.9	—	—	19.2	18.9	18.9	19.0	—	—	—	4.1	1.9	0.54	1.06	2,157	205	—	—	—	—	—	—	—	—	0.85
		Financial Sector Category Average	2.3	34.9	23.9	(14.5)	14.3	19.4	17.7	17.6	13.8	13.7	15.7	212.5	(68.9)	2.7	0.8	1.00	1.48	1,019	852	88	9	2	1	23.7	20	118	39	0.80
I		SPDR S&P Regional Banking ETF (KRE)	0.1	47.3	16.9	(5.7)	20.0	(22.0)	21.0	20.8	18.7	18.7	19.1	145.1	(54.1)	1.5	0.7	1.16	1.72	2,528	2,876	100	0	0	0	3.6	29	81	14	0.35
I		iShares US Financial Services (IYG)	1.4	42.8	33.0	(20.4)	7.7	16.4	19.7	19.5	17.2	17.2	14.2	205.2	(74.4)	1.2	0.3	1.11	1.65	562	42	100	0	0	0	0.3	4	111	59	0.46
		Health Sector Category Average	12.0	45.6	20.6	7.6	14.6	26.1	35.4	35.2	22.3	22.3	24.1	252.3	(33.9)	0.6	0.2	1.00	1.27	1,361	379	100	0	0	0	11.0	30	82	45	0.42
I		iShares Nasdaq Biotechnology (IBB)	13.4	65.5	32.0	11.9	14.9	15.5	48.1	48.0	34.3	34.4	29.0	313.1	(27.3)	0.2	0.1	1.24	1.57	5,251	1,028	100	0	0	0	5.7	39	122	56	0.48
I		PowerShares Dynamic Pharmaceuticals (PJP)	14.5	55.6	24.7	19.8	27.8	16.9	45.3	45.2	32.7	32.8	33.0	373.2	(28.1)	0.4	0.4	0.87	1.10	1,166	118	100	0	0	0	6.0	39	29	47	0.63

year return, performed exceptionally well in 2012. The iShares fund gained 78.9% and the SPDR fund gained 57.5%. Both funds realized losses in the second half of 2011 and during the first half of 2014, however. They also lagged the S&P 500 index in 2013. In other words, their strong three-year return is skewed upward by a very good 2012.

These funds further emphasize the importance of not making assumptions about the holdings strategy of an ETF based on its name. IShares US Home Construction's five largest holdings are homebuilders such as DR Horton Inc. (DRI) and Lennar Corp. (LEN). The largest holdings of SPDR S&P Homebuilders include home improvement retailer Lowe's Companies Inc. (LOW), home products retailer Williams-Sonoma Inc. (WSM) and flooring company Mohawk Industries Inc. (MHK).

Profiting From IPOs and Spin-Offs

As mentioned, the two non-sector funds in the top 10 are First Trust US IPO Index and Guggenheim Spin-Off. The Guggenheim fund is one of six ETFs maintaining its spot in the top-10 list for at least a second consecutive year.

First Trust US IPO

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

Data as of 6/30/2014.

Index Enhanced ETN	ETF Name (Ticker)	NAV Total Return (%) YTD	2013	2012	2011	2010	2009	12-Month Return (%) NAV	Market	3-Yr Ann'lzd Return (%) NAV	Market	Total Return (%) 5-Year Ann'lzd	Bull* Mkt	Bear* Mkt	Yield (%)	Tax-Cost Ratio (%)	Risk Index Cat (X)	Total (X)	Total Assets ($ Mil)	Avg Daily Trading Volume (Thous)	Portfolio (%) Stock	Bond	Other	Cash	% of Port in Foreign Issues	Port Turnover Ratio (%)	Number of Hldgs	% of Port in Top 10 Hldgs	Exp Ratio (%)
	Homebuilders Sector Category Average	(0.1)	21.6	68.2	(4.8)	13.9	24.0	12.0	12.0	24.5	24.4	22.6	261.3	(60.3)	0.9	0.2	1.00	1.95	1,809	3,915	100	0	0	0	2.0	30	37	47	0.40
I	iShares US Home Construction (ITB)	(0.1)	17.8	78.9	(8.9)	10.4	21.1	11.2	11.1	25.7	25.6	21.1	244.5	(63.4)	0.2	0.1	1.05	2.04	1,769	3,103	100	0	0	0	1.0	23	37	62	0.46
	Industrials Sector Category Average	5.3	33.8	18.0	(8.7)	19.6	27.1	27.8	27.6	12.4	12.3	16.9	196.4	(53.0)	1.3	0.5	1.00	1.42	733	352	99	0	0	0	30.4	30	92	40	0.53
I	iShares US Aerospace & Defense (ITA)	2.8	57.1	14.1	5.0	16.5	25.3	34.5	34.3	20.0	19.9	23.2	260.0	(53.8)	1.5	0.4	0.81	1.15	442	78	100	0	0	0	0.0	15	38	56	0.46
I	First Trust Indust/Producer Dur AlphaDEX (FXR)	8.0	46.5	15.4	(5.9)	25.6	42.2	36.4	36.2	17.6	17.6	23.9	283.2	(57.0)	0.8	0.4	1.02	1.45	1,192	953	100	0	0	0	1.0	—	103	18	0.70
	Natural Resources Sector Category Average	5.7	(2.0)	7.1	(21.4)	21.1	55.2	21.3	21.2	(4.2)	(4.2)	11.8	157.6	(56.4)	1.4	0.6	1.00	2.10	550	309	99	0	1	0	55.1	27	83	51	0.54
I	First Trust Materials AlphaDEX (FXZ)	6.1	26.7	25.2	(10.1)	28.1	60.0	30.3	30.0	12.5	12.4	21.7	308.3	(59.1)	1.0	0.6	0.81	1.69	653	456	100	0	0	0	2.5	—	55	33	0.70
I	Vanguard Materials ETF (VAW)	8.3	24.9	17.3	(9.4)	24.3	51.6	31.6	31.6	11.3	11.3	18.8	220.0	(56.0)	1.7	0.5	0.78	1.64	1,280	89	100	0	0	0	0.2	7	132	50	0.14
	Precious Metals Sector Category Average	28.5	(49.9)	(11.9)	(30.1)	44.8	43.6	21.0	20.2	(23.3)	(23.3)	(5.5)	(9.8)	(32.9)	0.6	0.5	1.00	3.14	1,072	3,541	100	0	(0)	0	90.8	27	40	63	0.59
I	Market Vectors Gold Miners ETF (GDX)	24.9	(53.9)	(9.1)	(15.9)	34.0	37.3	8.9	9.0	(20.9)	(20.9)	(6.3)	(17.9)	(32.9)	0.7	0.3	0.86	2.71	7,975	28,683	100	0	1	(1)	87.7	33	48	68	0.53
	Real Estate Sector Category Average	16.9	2.0	19.8	5.9	26.6	25.9	13.1	12.7	11.1	11.1	21.8	260.3	(64.8)	4.4	1.5	1.00	1.37	2,219	850	100	0	0	(0)	0.3	18	72	49	0.42
I	Vanguard REIT Index ETF (VNQ)	17.7	2.4	17.7	8.6	28.4	29.8	13.4	13.4	11.8	11.8	23.8	292.1	(64.4)	3.1	1.1	0.99	1.36	23,861	3,142	100	0	0	0	0.0	11	138	39	0.10
I	Schwab US REIT ETF (SCHH)	18.2	1.1	16.9	—	—	—	13.2	13.1	11.3	11.3	—	—	—	2.3	0.9	1.00	1.37	1,004	127	100	0	0	0	0.0	—	91	45	0.07
	Real Estate Global Sector Cat Average	9.9	4.4	34.5	(12.3)	17.6	39.7	15.2	15.4	8.7	8.4	15.1	194.0	(67.4)	4.2	1.6	1.00	1.48	829	87	98	0	2	1	79.6	12	216	33	0.49
I	SPDR Dow Jones Global Real Estate (RWO)	14.2	2.9	25.1	(2.7)	24.1	34.3	14.4	14.5	9.9	9.8	19.1	233.3	—	3.0	1.4	0.88	1.30	1,321	161	99	0	0	1	44.9	8	224	27	0.50
I	SPDR Dow Jones Intl Real Estate (RWX)	10.2	5.1	36.4	(14.1)	21.1	38.8	16.5	16.2	9.0	8.6	15.6	193.2	(66.5)	4.4	2.0	0.94	1.40	4,829	475	97	0	2	1	96.7	11	131	38	0.59
	Technology Sector Category Average	7.4	35.1	12.0	(7.3)	20.2	63.9	30.5	30.4	13.4	13.4	18.2	221.1	(52.1)	0.6	0.2	1.00	1.48	1,164	390	100	0	0	0	14.4	38	90	45	0.49
I	First Trust Dow Jones Internet Index (FDN)	(0.5)	53.4	20.9	(5.7)	36.7	79.2	31.3	31.2	18.0	18.0	26.1	332.6	(50.6)	0.0	0.0	1.04	1.54	1,864	332	100	0	0	0	0.0	—	42	55	0.60
I	iShares PHLX Semiconductor (SOXX)	19.5	41.3	6.7	(10.5)	14.2	74.6	37.7	37.8	17.2	17.3	20.0	236.7	(57.5)	1.1	0.3	1.03	1.53	445	181	100	0	0	0	15.2	16	31	58	0.48
	Utilities Sector Category Average	15.0	15.7	5.4	4.6	3.7	10.9	22.9	22.8	10.4	10.3	11.9	105.0	(39.3)	2.9	1.1	1.00	1.02	877	1,073	99	0	0	0	24.0	14	61	46	0.43
I	Vanguard Utilities ETF (VPU)	17.9	14.9	2.0	18.9	6.9	11.4	22.0	21.9	14.5	14.5	14.9	126.9	(38.0)	3.2	0.9	0.89	0.90	1,767	181	100	0	0	0	0.0	7	80	48	0.14
I	iShares US Utilities (IDU)	18.0	14.7	1.3	18.6	7.3	12.2	21.6	21.6	14.2	14.2	14.7	126.5	(39.7)	2.9	0.7	0.89	0.90	1,264	481	100	0	0	0	0.0	8	63	49	0.46
	Commodities: Agriculture Category Average	8.6	(12.7)	(3.5)	(12.4)	33.3	13.1	4.1	4.5	(7.0)	(6.5)	2.6	24.8	(28.3)	0.0	0.0	1.00	1.81	68	41	12	0	79	9	10.2	1	17	84	1.01
I	PowerShares DB Agriculture (DBA)	13.1	(13.2)	(2.9)	(11.0)	22.5	1.9	10.4	10.3	(5.0)	(4.7)	1.6	16.7	(17.0)	0.0	0.0	0.67	1.20	1,412	611	0	0	102	(2)	0.0	—	28	92	0.85
	Commodities: Energy Category Average	10.2	4.0	(11.5)	(7.7)	(6.0)	11.2	17.8	17.4	(3.2)	(3.1)	(1.5)	39.0	(56.9)	0.0	0.0	1.00	1.90	106	367	4	0	81	15	0.0	5	9	89	0.90
I	United States Oil (USO)	10.3	5.4	(12.2)	(2.3)	(0.5)	14.2	13.6	13.8	1.3	1.4	0.5	41.9	(62.6)	0.0	0.0	1.00	1.90	641	2,189	0	0	50	50	0.0	0	9	50	0.61
	Commodities: Precious Metals Cat Average	9.7	(32.5)	6.0	(5.1)	54.1	42.6	8.2	6.2	(9.8)	(9.6)	5.6	33.4	6.9	0.0	0.0	1.00	2.45	1,526	510	0	0	112	(12)	0.0	0	4	112	0.80
I	ETFS Physical Palladium Shares (PALL)	18.4	1.1	9.2	(20.1)	—	—	30.5	27.1	2.9	2.9	—	—	—	0.0	0.0	0.86	2.10	530	63	0	0	100	0	0.0	—	1	100	0.60
	Commodities: Miscellaneous Cat Average	5.4	(11.1)	(0.8)	(17.4)	15.9	52.7	8.7	9.3	(8.6)	(8.3)	1.2	41.7	(50.3)	0.0	0.0	1.00	1.79	280	90	11	1	33	55	12.2	0	15	56	0.80
I	iShares S&P GSCI Commodity-Indexed Trust (GSG)	5.1	(2.0)	(0.6)	(3.3)	7.8	15.1	9.3	10.1	(0.3)	(0.2)	2.5	40.9	(53.4)	0.0	0.0	0.75	1.33	1,082	460	50	0	0	50	49.8	0	14	50	0.75
	Balanced Category Average	5.3	13.7	10.8	0.6	10.6	19.9	14.2	14.0	8.1	8.4	11.4	106.2	(30.3)	2.2	0.7	1.00	0.65	110	34	59	26	1	14	20.7	14	115	75	0.55
I	PowerShares CEF Income Composite (PCEF)	9.4	4.2	15.8	0.6	—	—	12.5	12.2	7.6	7.5	—	—	—	7.8	3.1	1.13	0.73	609	114	29	66	5	(1)	43.0	—	156	24	1.77
	Balanced: Global Category Average	5.8	3.6	6.9	(2.3)	5.8	19.0	11.9	11.9	3.8	3.7	6.1	106.9	—	1.8	0.4	1.00	0.54	97	21	53	33	5	8	37.4	61	49	75	0.96
I	iShares Growth Allocation (AOR)	5.4	15.9	11.4	1.2	11.1	19.1	16.4	16.4	9.6	9.6	12.0	106.9	—	1.9	0.5	1.26	0.68	303	33	65	26	1	9	23.1	9	11	100	0.30
	Global Stock Category Average	7.8	17.5	13.3	(5.6)	8.8	39.3	22.9	22.9	8.4	8.3	13.9	162.9	(56.5)	2.8	1.3	1.00	1.17	712	77	92	0	6	1	56.6	14	664	24	0.50
I	iShares MSCI Kokusai (TOK)	6.8	26.9	16.9	(4.3)	11.4	33.0	25.7	27.3	12.5	13.0	16.0	174.0	—	2.7	0.6	1.01	1.19	474	5	95	0	3	2	37.8	4	1,304	10	0.25
I	First Trust DJ Global Select Dividend (FGD)	10.5	18.0	15.6	(2.2)	12.2	64.4	31.7	31.9	10.8	10.8	17.3	247.1	—	4.2	1.9	1.02	1.19	584	95	100	0	0	(0)	83.2	—	118	17	0.60
	Foreign Stock Category Average	6.9	18.7	15.3	(12.5)	11.9	40.3	25.7	25.6	6.7	6.6	12.4	149.5	(57.1)	2.6	1.1	1.00	1.38	1,961	315	97	0	2	1	96.4	29	758	19	0.48
I	WisdomTree International SmallCap Div (DLS)	5.5	27.4	21.5	(12.1)	18.2	42.0	27.4	28.0	11.7	11.7	16.3	188.3	(59.5)	3.1	1.5	0.87	1.19	975	48	100	0	0	0	99.7	—	839	6	0.58
I	iShares MSCI EAFE Small-Cap (SCZ)	5.3	29.2	19.9	(14.9)	22.3	46.4	28.6	29.3	10.1	9.9	15.5	195.5	—	2.3	0.8	0.97	1.34	4,064	436	97	0	2	2	96.5	12	1,515	3	0.40
	Foreign Stock: Europe Category Average	5.6	27.9	21.1	(14.0)	4.1	38.7	31.6	31.4	8.3	8.3	12.1	145.5	(60.9)	2.6	0.9	1.00	1.68	1,276	506	98	0	1	1	98.1	23	122	47	0.49
I	WisdomTree Europe SmallCap Dividend (DFE)	7.3	47.2	28.0	(19.4)	18.6	58.0	45.5	45.7	15.7	15.8	20.2	245.0	(64.9)	2.1	1.3	0.98	1.65	1,706	390	99	0	1	0	98.1	—	347	12	0.58
I	iShares MSCI Switzerland Capped Index (EWL)	7.0	26.5	20.2	(7.3)	13.7	25.9	22.7	22.5	11.7	11.5	16.8	172.5	(46.4)	2.3	0.6	0.77	1.29	1,133	345	100	0	0	0	99.7	13	40	72	0.51
	Foreign Stock: Latin America Cat Average	7.0	(15.1)	13.7	(20.3)	28.5	94.5	8.3	8.4	(5.7)	(6.0)	8.3	137.3	(56.6)	2.6	1.0	1.00	2.04	452	819	90	0	10	1	88.0	38	66	49	0.65
I	iShares MSCI Mexico Capped (EWW)	1.2	(1.5)	31.3	(12.3)	27.5	55.7	6.1	5.6	4.4	4.2	14.5	205.7	(59.3)	1.6	0.3	0.84	1.70	2,876	1,817	100	0	0	0	99.6	32	52	62	0.50
I	iShares Latin America 40 (ILF)	4.9	(12.5)	5.3	(18.4)	15.2	92.9	6.6	6.8	(6.8)	(6.8)	4.8	89.1	(53.9)	2.6	0.7	0.90	1.83	1,149	586	99	0	0	1	97.6	18	45	56	0.50
	Foreign Stock: Pacific/Asia Cat Average	7.3	6.7	19.0	(20.2)	15.8	56.4	18.5	19.0	2.5	2.1	9.9	145.6	(55.7)	2.0	0.7	1.00	1.87	617	657	98	0	1	1	97.7	33	177	41	0.61
I	iShares MSCI Philippines (EPHE)	19.6	(7.9)	45.5	(3.3)	—	—	5.5	6.0	16.3	15.6	—	—	—	0.8	0.3	0.90	1.69	362	341	99	0	1	0	99.1	23	44	58	0.61
I	db X-trackers MSCI Japan Hedged Eq ETF (DBJP)	(3.2)	51.7	19.6	—	—	—	11.2	10.6	14.2	14.6	—	—	—	1.5	0.8	0.83	1.55	445	60	100	0	0	0	100.0	—	312	22	0.45
	Foreign Stock: Emerging Mkts Cat Average	5.0	(0.9)	17.6	(22.0)	20.9	70.7	14.1	14.4	(1.8)	(2.0)	8.1	124.4	(59.4)	1.9	0.9	1.00	1.85	1,644	871	97	0	3	1	96.5	37	271	35	0.60
I	EGShares Emerging Markets Consumer (ECON)	4.6	1.7	20.6	(5.0)	—	—	8.4	8.2	5.4	5.0	—	—	—	0.7	0.2	0.81	1.49	1,304	165	100	0	0	0	99.9	14	32	52	0.85
I	iShares MSCI South Africa (EZA)	9.1	(6.8)	17.9	(14.8)	33.3	56.4	21.0	20.4	2.1	1.7	11.1	160.8	(55.7)	2.2	0.6	0.89	1.64	579	321	100	0	0	0	99.8	5	52	62	0.61

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

Data as of 6/30/2014.

Index Enhanced ETN	ETF Name (Ticker)	NAV Total Return (%) YTD	NAV Total Return (%) 2013	NAV Total Return (%) 2012	NAV Total Return (%) 2011	NAV Total Return (%) 2010	NAV Total Return (%) 2009	12-Month Return (%) NAV	12-Month Return (%) Market	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 (%)
	General Bond: Short-Term Category Average	**0.7**	**0.9**	**3.6**	**1.6**	**3.0**	**5.0**	**1.8**	**1.6**	**1.6**	**1.5**	**2.0**	**13.5**	**4.7**	**0.9**	**0.4**	**1.00**	**0.10**	**2,080**	**186**	**0**	**78**	**1**	**21**	**21.3**	**29**	**430**	**17**	**0.22**
I	Vanguard Short-Term Corp Bd Idx ETF (VCSH)	**1.8**	1.4	**5.7**	**2.9**	**5.5**	—	**3.7**	**3.5**	**3.1**	**3.0**	—	—	—	1.6	0.8	1.75	0.16	8,157	495	0	99	0	1	19.8	61	1,741	3	0.12
I	SPDR Barclays Capital Short Term Corp Bd (SCPB)	0.9	1.4	3.7	1.4	3.6	—	**2.1**	**2.1**	**1.9**	**1.9**	—	—	—	1.2	0.6	0.92	0.09	3,448	658	0	95	0	5	21.2	46	953	5	0.13
	General Bond: Interm-Term Cat Average	**4.2**	**(1.0)**	**7.9**	**6.6**	**7.8**	**8.6**	**5.6**	**5.7**	**5.0**	**4.9**	**5.8**	**39.2**	**3.4**	**2.1**	**1.0**	**1.00**	**0.33**	**1,963**	**136**	**0**	**86**	**2**	**11**	**(130.5)**	**82**	**1,157**	**390**	**0.23**
I	Vanguard Interm-Tm Corp Bd Idx ETF (VCIT)	**6.1**	(1.8)	**11.4**	7.9	**10.6**	—	**8.0**	**8.1**	**6.5**	**6.4**	—	—	—	2.9	1.4	1.23	0.40	3,723	221	0	99	0	1	15.8	73	1,465	4	0.12
I	iShares Core US Credit Bond (CRED)	**5.6**	(2.3)	9.1	**8.1**	8.4	**14.2**	**7.4**	**7.4**	**5.6**	**5.6**	**7.4**	**54.0**	(3.3)	3.4	1.4	1.08	0.35	780	19	0	98	0	1	29.8	9	2,020	3	0.15
	General Bond: Long-Term Category Average	**7.8**	**(4.5)**	**10.9**	**15.4**	**10.2**	**6.9**	**9.1**	**9.5**	**8.5**	**8.2**	**9.3**	**63.1**	**(1.0)**	**3.3**	**1.6**	**1.00**	**0.61**	**1,866**	**119**	**0**	**98**	**0**	**2**	**16.8**	**20**	**747**	**11**	**0.16**
I	Vanguard Long-Term Corp Bond Idx ETF (VCLT)	**11.8**	(5.9)	**12.3**	15.9	**11.2**	—	**13.2**	**13.6**	**10.1**	**9.7**	—	—	—	4.1	1.8	1.20	0.73	838	79	0	99	0	1	14.0	57	1,296	6	0.12
I	Vanguard Long-Term Bond Index ETF (BLV)	**12.1**	(9.0)	8.5	**22.2**	10.4	1.8	10.5	10.4	9.5	**9.5**	9.5	**64.9**	**2.3**	4.2	1.8	1.26	0.77	646	64	0	99	0	1	14.3	50	1,727	16	0.10
	Convertible Category Average	**9.0**	**20.7**	**15.1**	**(6.5)**	**—**	**—**	**22.4**	**22.4**	**11.0**	**11.2**	**14.6**	**—**	**—**	**3.2**	**1.5**	**1.00**	**0.85**	**2,862**	**386**	**2**	**2**	**95**	**2**	**0.0**	**34**	**97**	**26**	**0.40**
I	SPDR Barclays Capital Convertible Secs (CWB)	**9.0**	**20.8**	**15.2**	**(6.6)**	**14.0**	—	**22.4**	**22.4**	**11.0**	**11.2**	**14.6**	—	—	3.2	1.5	1.00	0.85	2,862	386	2	2	95	2	0.0	34	97	26	0.40
	Corporate Bond: High-Yield Category Average	**4.3**	**6.4**	**14.0**	**4.6**	**11.9**	**41.4**	**10.3**	**10.5**	**8.7**	**8.4**	**11.8**	**111.9**	**(24.1)**	**4.5**	**1.9**	**1.00**	**0.58**	**1,587**	**339**	**0**	**84**	**4**	**12**	**(17.2)**	**29**	**255**	**109**	**0.50**
	AdvisorShares Peritus High Yield ETF (HYLD)	**6.7**	**12.1**	**15.1**	1.9	—	—	**14.0**	**15.3**	**9.9**	**9.6**	—	—	—	7.4	3.2	0.77	0.44	1,076	291	8	88	1	2	36.4	—	80	17	1.25
	Inflation-Protected Bond Category Average	**3.2**	**(5.7)**	**5.6**	**12.6**	**6.0**	**11.2**	**2.1**	**2.1**	**3.2**	**3.2**	**5.4**	**38.6**	**0.9**	**0.8**	**0.5**	**1.00**	**0.45**	**1,176**	**66**	**0**	**91**	**0**	**9**	**0.0**	**82**	**17**	**255**	**0.33**
I	SPDR Barclays TIPS (IPE)	**6.2**	(9.4)	**7.1**	13.8	6.1	11.2	**4.5**	**4.7**	3.5	3.5	**5.5**	**38.9**	0.9	1.3	0.7	1.07	0.47	597	37	0	100	0	0	0.0	20	36	43	0.19
	Gov't Bond: Short-Term Category Average	**0.5**	**0.1**	**0.3**	**2.8**	**1.3**	**0.2**	**0.9**	**0.8**	**0.6**	**0.5**	**0.5**	**2.0**	**4.7**	**0.2**	**0.0**	**1.00**	**0.06**	**1,102**	**135**	**0**	**79**	**0**	**21**	**(0.3)**	**157**	**53**	**42**	**0.18**
I	Vanguard Short-Term Govt Bd Idx ETF (VGSH)	0.4	**0.3**	**0.4**	1.5	2.2	—	0.7	0.5	**0.6**	0.5	—	—	—	0.3	0.2	0.50	0.03	433	66	0	99	0	1	0.0	73	122	25	0.12
	Gov't Bond: Interm-Term Category Average	**4.6**	**(5.2)**	**4.0**	**16.1**	**9.1**	**(0.6)**	**3.3**	**3.3**	**4.4**	**4.3**	**5.4**	**15.4**	**13.6**	**0.9**	**0.4**	**1.00**	**0.48**	**428**	**152**	**0**	**80**	**46**	**(26)**	**2.1**	**219**	**82**	**79**	**0.35**
I	iShares 3-7 Year Treasury Bond (IEI)	1.9	**(2.0)**	2.1	8.1	6.5	(1.9)	1.9	1.9	2.3	2.3	3.6	**17.7**	**14.7**	1.0	0.4	0.48	0.22	2,984	231	0	99	0	1	0.0	57	56	54	0.15
	Gov't Bond: Long-Term Category Average	**16.9**	**(17.1)**	**3.8**	**46.5**	**10.1**	**(16.1)**	**7.4**	**7.5**	**11.5**	**11.2**	**7.7**	**34.0**	**17.0**	**1.7**	**0.7**	**1.00**	**1.52**	**803**	**770**	**0**	**90**	**34**	**(24)**	**0.0**	**48**	**32**	**87**	**0.41**
I	Vanguard Extended Dur Trs Idx ETF (EDV)	20.9	(20.9)	3.2	55.8	**10.3**	(36.7)	8.4	8.6	15.2	15.2	**9.6**	**40.4**	—	3.1	1.8	1.28	1.94	230	42	0	100	0	0	0.0	31	68	20	0.12
	Gov't Bond: Other Category Average	**1.0**	**0.3**	**1.4**	**4.1**	**6.4**	**4.5**	**4.3**	**5.2**	**1.8**	**1.8**	**4.0**	**24.6**	**7.8**	**2.0**	**0.8**	**1.00**	**0.42**	**545**	**41**	**2**	**42**	**2**	**54**	**(191.8)**	**294**	**391**	**273**	**0.42**
I	Vanguard Mortgage-Backed Sec Idx ETF (VMBS)	**3.9**	(1.3)	2.5	5.9	5.2	—	4.5	4.6	2.7	2.6	—	—	—	1.5	0.6	**0.43**	0.17	432	44	0	78	0	22	13.6	840	1,461	17	0.12
	Muni Nat'l Bond: Short-Term Cat Average	**0.4**	**0.4**	**1.1**	**3.2**	**1.1**	**4.3**	**1.0**	**0.7**	**1.1**	**0.9**	**1.6**	**9.7**	**8.4**	**0.6**	**0.0**	**1.00**	**0.06**	**430**	**64**	**0**	**85**	**0**	**15**	**0.0**	**23**	**343**	**23**	**0.23**
I	SPDR Nuveen Barclays Capital S/T Muni Bd (SHM)	**0.9**	**0.9**	1.3	3.5	1.4	5.2	**2.3**	**2.8**	1.5	1.4	2.1	11.7	**8.4**	0.9	0.0	1.63	0.10	2,219	402	0	98	0	2	0.0	20	542	10	0.20
	Muni Nat'l Bond: Interm-Term Cat Average	**2.7**	**(1.7)**	**4.0**	**8.6**	**2.3**	**10.7**	**3.8**	**5.0**	**3.2**	**3.2**	**3.5**	**20.6**	**—**	**1.7**	**0.0**	**1.00**	**0.27**	**144**	**23**	**0**	**97**	**0**	**2**	**0.0**	**16**	**272**	**22**	**0.30**
I	Market Vectors Intermediate Muni ETF (ITM)	**5.8**	(3.5)	**6.1**	**12.6**	2.4	**10.7**	**6.1**	**8.3**	**5.2**	**5.2**	**5.7**	**32.8**	—	2.5	0.0	1.52	0.40	669	125	0	100	0	0	0.0	1	683	5	0.24
	Muni Nat'l Bond: Long-Term Cat Average	**9.8**	**(6.7)**	**9.9**	**17.3**	**2.3**	**14.3**	**8.4**	**9.5**	**7.5**	**7.6**	**5.9**	**37.3**	**0.4**	**3.9**	**0.9**	**1.00**	**0.54**	**651**	**73**	**0**	**98**	**(1)**	**2**	**2.0**	**32**	**397**	**25**	**0.44**
I	PowerShares Build America Bond (BAB)	10.1	(5.1)	11.4	20.9	**9.3**	—	9.4	9.4	9.3	9.4	—	—	—	4.8	1.9	1.03	0.55	676	110	0	97	0	3	0.0	—	258	19	0.28
	Muni Nat'l Bond: High Yield Cat Average	**9.8**	**(7.5)**	**16.7**	**9.4**	**2.6**	**—**	**6.1**	**7.3**	**7.4**	**8.2**	**8.4**	**61.6**	**—**	**5.1**	**0.0**	**1.00**	**0.54**	**473**	**164**	**0**	**97**	**0**	**3**	**0.0**	**10**	**357**	**14**	**0.38**
I	SPDR Nuveen S&P High Yield Municipal Bd (HYMB)	**11.1**	**(7.0)**	**16.8**	—	—	—	**8.2**	**9.9**	**8.0**	**9.7**	—	—	—	4.7	0.0	1.02	0.55	276	46	0	99	0	1	0.0	7	316	10	0.45
	International Bond: General Category Average	**6.9**	**(0.1)**	**14.0**	**0.8**	**2.7**	**13.9**	**11.7**	**12.1**	**6.2**	**6.1**	**3.6**	**37.9**	**(3.6)**	**1.6**	**0.6**	**1.00**	**0.82**	**236**	**28**	**1**	**92**	**5**	**3**	**77.9**	**42**	**298**	**29**	**0.51**
I	SPDR DB Intl Govt Infl-Protected Bond (WIP)	7.2	(4.8)	**14.0**	2.5	**6.8**	18.5	11.0	10.5	3.5	3.3	**6.6**	**64.2**	—	2.4	1.2	0.93	0.75	959	45	0	94	6	0	94.0	43	98	25	0.50
	International Bond: Emerging Cat Average	**5.9**	**(4.0)**	**12.8**	**2.8**	**11.6**	**30.2**	**7.6**	**8.1**	**3.0**	**2.7**	**9.9**	**87.4**	**(14.7)**	**4.0**	**1.5**	**1.00**	**0.84**	**538**	**121**	**0**	**85**	**1**	**14**	**83.6**	**39**	**157**	**23**	**0.53**
I	PowerShares Emerging Mkts Sovereign Debt (PCY)	**10.3**	(9.8)	**21.0**	**8.2**	**11.7**	**33.3**	**11.6**	**11.8**	**7.5**	**7.5**	**10.4**	**92.3**	**(14.7)**	4.3	1.8	0.94	0.78	2,162	609	0	100	0	0	99.9	—	68	19	0.50
	Currency Category Average	**1.4**	**(3.5)**	**0.7**	**(1.8)**	**3.7**	**7.8**	**2.0**	**1.9**	**(2.4)**	**(2.5)**	**0.7**	**14.3**	**(10.8)**	**0.3**	**0.3**	**1.00**	**0.82**	**78**	**53**	**0**	**0**	**9**	**91**	**0.4**	**2**	**4**	**9**	**0.60**
I	PowerShares DB US Dollar Index Bullish (UUP)	(1.1)	(1.3)	(2.8)	(1.5)	(1.1)	(6.8)	(5.7)	(5.8)	0.1	0.1	(2.3)	(19.5)	**13.2**	0.0	0.0	**0.71**	0.57	711	886	0	0	0	100	0.0	—	12	0	0.75

Source: "The Individual Investor's Guide to Exchange-Traded Funds 2014," August 2014 AAII Journal. *Data from Morningstar Inc. is through June 30, 2014.*

**Bull market is defined as 3/1/2009 through 6/30/2014. Bear market is defined as 11/1/2007 through 2/28/2009.*

Go to www.aaii.com/guides/etf-guide for the complete list of ETFs covered by AAII.

Index tracks the IPOX-100 U.S. Index. This index is made up of the top U.S. companies, ranked by market capitalization, that have completed their initial public offerings within approximately the past four years. Companies are generally added to the index six days after completing their initial public offering. The index caps the weighting of any individual company at 10%.

Starting in 2007, this ETF has ranked within the top quartile for large-cap stock ETFs during five out of seven full-calendar years. However, it performed significantly worse than the large-cap category in 2008, losing 43.9% versus a loss of 36.2% for the average large-cap ETF. Though not a top performer in 2011, First Trust US IPO Index's 3.1% gain was better than the 2.7% large-cap category average.

The ETF's expense ratio of 0.60% ranks among the most expensive for all large-cap ETFs. The category average is 0.40%. The comparatively higher expense ratio for the fund may, in part, may be due to quarterly rebalancing of the underlying IPOX Global Composite Index. First Trust US IPO Index's tax-cost ratio of 0.40% is below the large-cap ETF average of 0.60%, however.

As some of you may recall from last year's commentary ("The Top ETFs over Three Years: Consumer Spending Makes an Impact," September 2013 *AAII Journal*), 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.

The Guggenheim fund tracks the Beacon Spin-Off Index. This index uses a modified market-cap-weighting methodology to limit the weighting of any single stock to no more than 4.5%. The index is rebalanced annually unless there are not enough new spin-off companies to populate the index. (A decline in spin-offs and IPOs, respectively, are risks for these Guggenheim and First Trust ETFs.)

Guggenheim Spin-Off's returns have ranked in the top quartile of all mid-cap ETFs for the three out of the past four full-calendar years. (It lagged its category peers in 2010.) During the first six months of 2014, the Guggenheim fund realized a return of 3.0%, versus the mid-cap category average of 7.5%. Because Guggenheim Spin-Off is not restricted by market-cap size, its returns will differ from "pure" mid-cap funds. The ETF's expense ratio of 0.65% is above the mid-cap category average of 0.40%.

Caveats & Notes

I had hoped to extend the analysis period from three to five years, but doing so would have resulted in several categories having too few funds. The bond fund categories were particularly problematic in terms of being able to use a five-year period. Among ETFs with at least $400 million in assets under management (AUM), only three short-term bond funds, two long-term bond funds and three corporate high-yields have been in existence for more than five years. Several foreign stock ETFs would have also been excluded had a five-year rule been used.

An ETF's inception date does not tell you whether it is better or worse than another fund. The inception date only reveals how much return data is available to judge the fund's performance by. Longer periods of return data are preferable because it lessens the impact of one good or bad year. Longer periods can also reveal how an ETF performed during a greater variety of market conditions.

It remains my intention 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 (See "The Top Mutual Funds Over Five Years: Credit the Bull and the Calendar" in the March 2014 *AAII Journal*). The comparisons will not be completely similar, however, because of the six-month difference in the time periods analyzed. Though seemingly short, the difference can alter 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 overwhelming majority of exchange-traded funds continue to be passively managed. Though the three largest actively managed ETFs do have a significant AUM, more than 70% of all actively managed ETFs had less than $100 million in AUM as of the end of June 30, 2014. Short histories also kept many active ETFs out of consideration, including PIMCO's Enhanced Short Maturity (MINT) and PIMCO Total Return (BOND). As a result, the only actively managed ETF included in this year's analysis is AdvisorShares Peritus High Yield (HYLD), which launched in November 2010 and had AUM of $1.08 billion as of June 30, 2014.

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 because of their lower costs, transparency and ease of trading. In other cases, active management is better, where a larger amount of choices exists among mutual funds. (See "An Inside Look at Exchange-Traded Funds" on page 32 in this issue, for more about the similarities and differences between ETFs and 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 $400 million in assets. (Exceptions were made when the performance of a smaller fund warranted it.) ETFs intended 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 20 through 25 shows the top ETFs by category. Three-year performance was calculated through June 30, 2014, to match the statistics displayed in "The Individual Investor's Guide to Exchange-Traded Funds 2014," which was published in the August 2014 *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, 2014) 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 fund shares 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 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.

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twice when you sell them. Investment management is a cold-blooded, return-maximizing endeavor.

Step 10: I believe past performance is a poor predictor of future performance, so I will not use it when evaluating an investment manager.

Past performance is not predictive of future performance. It is not like there is controversy surrounding this conclusion, as it has been confirmed by numerous academic studies. In spite of overwhelming evidence, virtually everyone, individuals and professionals alike, uses past performance in selecting managers. In fact, it is frequently the most important criterion when selecting a manager.

This is a dramatic example of the emotional power of the representativeness bias. If you release this emotion, you will be acting differently than virtually everyone else in the industry. Are you strong enough to do this? If you are, your portfolio performance will improve.

Step 11: I believe unreasonably constraining a portfolio, such as keeping a manager in a style box, hurts performance and thus will be avoided.

Consistent pursuit of a self-declared investment strategy is key to superior performance. Anything that gets in the way of doing this, such as emotions applied by an investor or constraints imposed by the industry, hurts investment performance.

One of the major offenders in this regard is the style grid used for active equity fund evaluation and distribution. One way to improve portfolio performance is to remove any requirement for a fund to stay in a style box.

Step 12: I will consistently pursue a narrowly focused investment strategy while taking only high-conviction positions when managing a portfolio.

Now that 11 of the 12 steps for removing emotions have been completed, you are ready to begin building an investment strategy. Successful strategies are narrowly focused on harnessing emotional crowd-driven price distortions by consistently pursuing the strategy over time and by taking high-conviction positions. These are important for building a superior portfolio.

Conclusion

There you have it: a simple approach for mastering your emotions! But of course, behavior modification is no easy task, so I am being facetious when I say it is simple. It is indeed quite difficult. But the reward is the ability to build superior portfolios. In fact, I believe removing emotions is the key to becoming a successful stockpicker. As I speak with advisers, other professional portfolio managers and individuals around the country, I become ever more convinced of the truth of this statement. I hope my 12-step program allows you to make progress on your road to emotional mastery.

And I leave with the Athena mantra: May you be wealthy and do good! ▲

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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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