



Global ETF Strategy

MQI: A reading of 4 suggests the balance of risks versus rewards over the next few quarters slightly favours adding new cash to equity markets.

US: Adding to core **[SPY]** weighting as US is expected to outperform EAFE **[EFA]**. Add alpha exposure via **[PBW]** as part of our long term bullish sector view.

Canada: Still overweight **[XIU]** versus the US and EAFE. New short on energy sector **[HED]** above \$92 on recent rally. Long gold **[XGD]** below \$85.

EAFE: Currency risks expected to detract 10% from returns this year. **[EFU]** used to hedge bearish exposure. Strong relative performance expected from Germany **[EWG]** and Switzerland **[EWL]**.

Emerging Markets: Slowing growth, but still likely to outperform. Volatility remains high. Brazil **[EWZ]** and Russia **[RSX]** expected to outperform. Avoid China **[FXI]** for now. We like India, but problems with **[INP]** being delisted and consistent swings away from NAV suggest it is too volatile to play.

Commodities: Buy **[GLD]** between \$92-95. Take profit on **[UNG]** above \$45. Take profit on **[USO]** at \$86. Buy **[GDX]** at \$52. Take profit on **[DBA]** at \$42. Take profit on **[DBC]** at \$39.

Fixed-Income: We see no value in owing any point on the yield curve. Cash is king for now. Duration risk is high. FOMC consider yield caps.

How to use this report: We have provided hyperlink tools to give readers and additional detail about the tools and techniques we use to evaluate global markets. We strive towards providing clients with the education needed to be a successful investor. Links are provided in the traditional underlined [hyperlink](#) and by hyperlinks throughout the report. These links will take you to the ETFCM website where our educational tools are found.

Equity Bias: Defensive

Tkr	Name	Cycle	Wgt
SPY	S&P 500	Bearish	M
XIU	S&P TSX 60	Bullish	O
EFA	MSCI EAFE	Bearish	U
EEM	MSCI Emerging Market	Cons	M

Debt Bias: Cash

AGG	Lehman Aggregate	Bullish	ST
TLT	Lehman Long Treasuries	Cons	ST
SHY	Lehman 1-3 Yr Treasuries	Bullish	ST
XBB	S&P TSX Bond Universe	Bullish	ST

Commodity Bias: Cautious

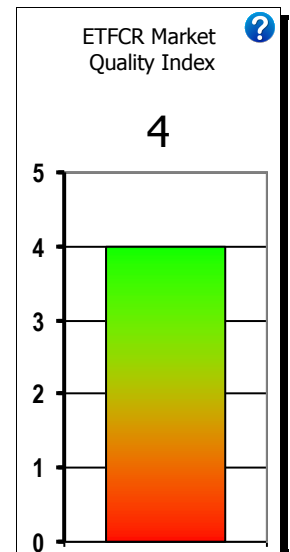
DBE	Energy	Bullish	OB
DBA	Agriculture	Bullish	ST
DBB	Base Metals	Bullish	ST
DBP	Precious Metals	Bullish	OB

Currency Bias: Long US\$

ETF Capital Research reports are designed to provide the user with a global view of the markets all by way of ETFs. ETFCR recommendations are based on a combination of global macro economic factors and our bottom up technical and fundamental factors that define our Market Quality Index. This plurality index provides an indication about the overall tone of the equity market and if it is likely to yield above or below average (5%+/-) returns over the next three to six months.

Major Market Indicators

Name	Level	Trend
US GDP	Weak	Down
US Inflation	High	Up
Mon. Policy	Stimulative	Lower
Fis. Policy	Stimulative	Higher
SPX Earn.	High	Falling
Val vs UST	Cheap	Falling
Trend	Up	Weak
Breadth	Up	Weak
Sentiment	Bearish	Up
OB vs. OS	Oversold	Up
Momentum	Neutral	Down
Volume	Neutral	Rising
Patterns	Bottom	Bullish
Volatility	High	Falling

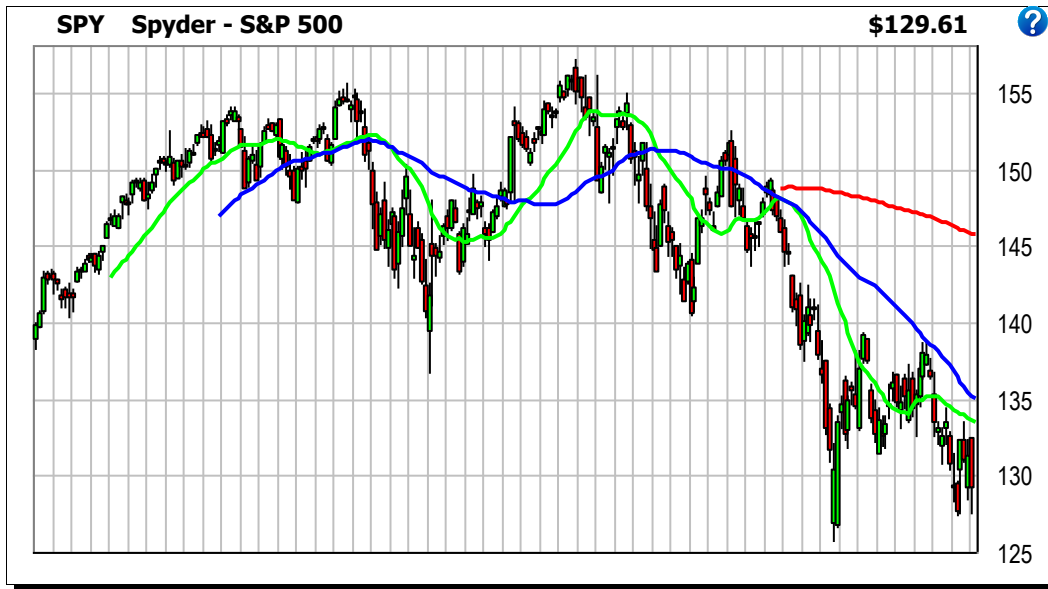


Core US ETF Strategy

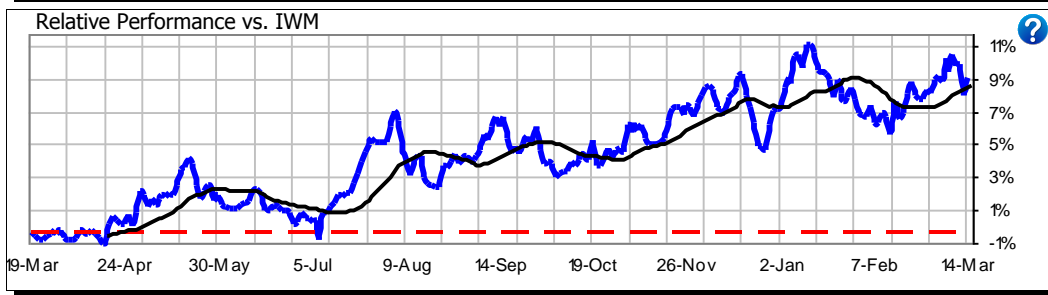
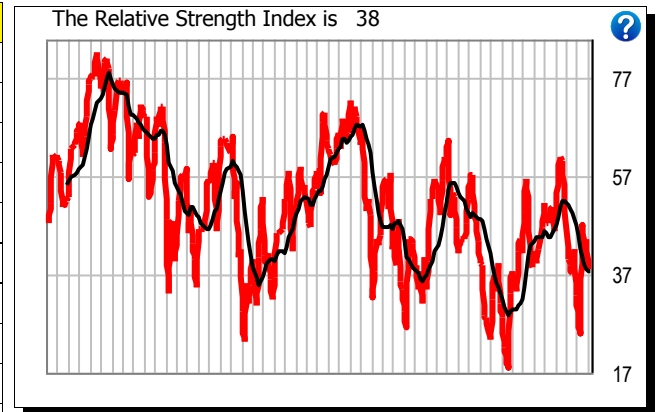


UNITED STATES

Our core US strategy has moved from being defensive to the very early stage of looking for a market recovery. Defensive investors should note that the DJIA (DIA) continues to outperform the broader S&P 500. For aggressive investors looking for growth, the Russell 2000 (IWM) has finally started to show some leadership after underperforming the S&P 500 since March '07. Aggressive interest rate cuts in the US are historically a positive for small cap stocks over large cap stocks. When there is blood in the streets in the form of bankruptcies and failures, history reminds us that the smart investors with a 12 month plus horizon should be a buyer. We believe the US is in the midst of a recession and the 20% plus correction suggests much of the bad news is priced in. Best support range for the DIA (\$115-118), SPY (\$125-129), QQQQ (\$40-42) and IWM (\$64-66).

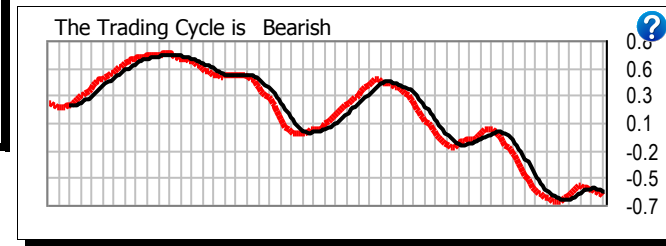
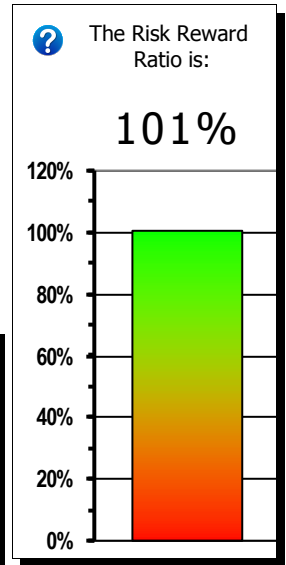


Key Levels	
52 Wk Hi:	\$157.52
52 Wk Lo:	\$126.00
P. Band Hi:	\$145.80
P. Band Lo:	\$129.97
21-D Avg:	\$133.87
50-D Avg:	\$135.48
200-D Avg:	\$146.10
Mth Av Rng	6.69%
Qtr Av Rng:	11.48%
Alpha:	3.6%
Beta:	0.70
Top 5	
XOM	4.2%
GE	3.0%
MSFT	2.0%
T	1.9%
PG	1.8%



Trading Cycles, the RRR, and RSI are key elements of our analysis. The higher the RRR, the better the odds of a successful trade. Trading cycles classify the market phase. For more detail click here.

Qtrly Rank:	41%
Liquidity (\$Mil)	\$33,765.6

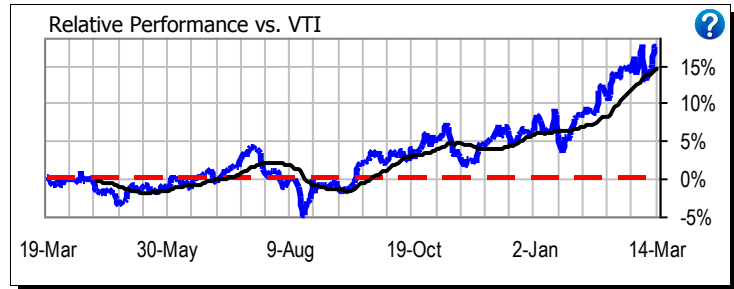


Relative performance is by far the most important technical characteristic when investing. Relative performance ranks highly in our modelling of the global ETF universe. Investors should add to core holding when positions are statistically cheap. [Click here for more detail.](#)

US ETF Sector Alpha Strategy

Top Ranked Momentum Sectors

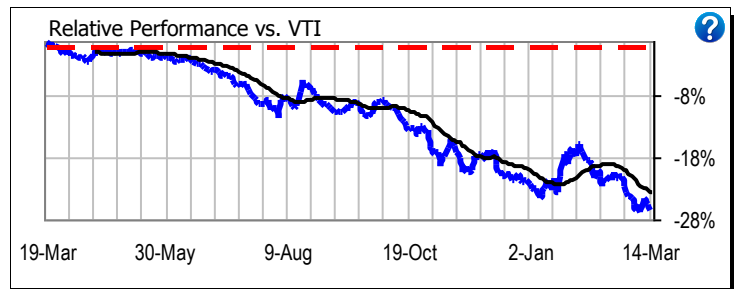
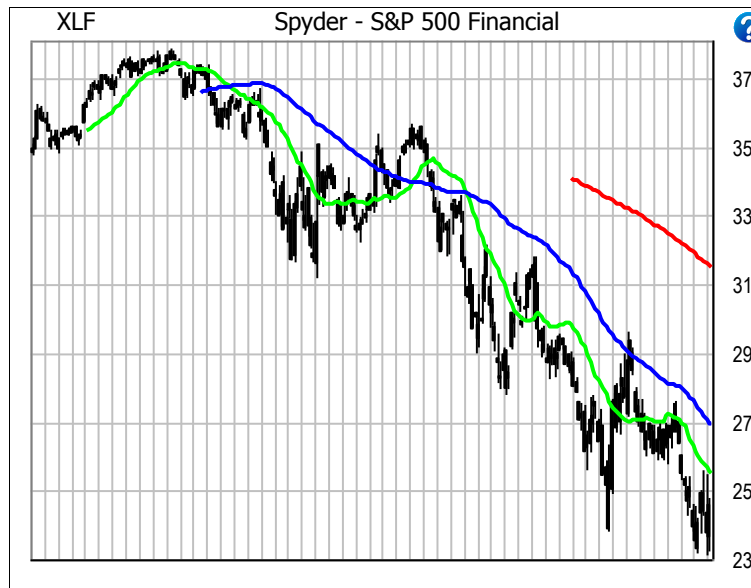
GDX	Van ECK - AMEX Gold Miners
MOO	Van ECK - Agribusiness
IEO	iShares - Oil & Gas Exploration
XOP	StreetTracks - Spyder Oil & Gas E & P
XHB	StreetTracks - Homebuilders
XME	StreetTracks - Spyder Metals & Mining
BBH	Holdings - Biotech
ITB	iShares - Home Construction
XLE	Spyder - S&P 500 Energy
RTH	Holdings - Retail
XES	Spyder - Oil & Gas Equip & Services
IYM	iShares - Dow Jones Basic Material
IHI	iShares - Medical Devices
IYT	iShares - Dow Jones Transports
OIH	Holdings - Oil Services
IWN	iShares - Russell 2000 Value
IYR	iShares - Dow Jones Real Estate
IJS	iShares - S&P 600 Value



All materials related sectors have been extremely strong in recent weeks, but have since moved to extreme overbought conditions. We are longer-term bulls on the commodity theme including agriculture and mining, but the charts suggest a near term correction is likely. A dip back to \$38 on the XLB would offer a much better near-term risk reward ratio entry location.

Most Oversold Risk-Reward Ratio Sectors

IHF	iShares - Healthcare Providers
IAI	iShares - Broker Dealers
KIE	StreetTracks - KBW Insurance
KBE	StreetTracks - KBW Bank
DVY	iShares - Dow Jones Select Dividend
IYH	iShares - Dow Jones Healthcare
IYZ	iShares - Dow Jones Telecom
XLV	Spyder - S&P 500 Health Care
XLF	Spyder - S&P 500 Financial
RKH	Holdings - Regional Bank
DLN	WisdomTree - Large Cap Dividend
VTV	Vanguard - Value
KCE	StreetTracks - KBW Capital Markets
XBI	StreetTracks - Spyder Biotech
PPH	Holdings - Pharmaceuticals
RSP	Rydex - S&P 500 Equal Weight
PBW	PowerShares - Wilderhill Clean Energy

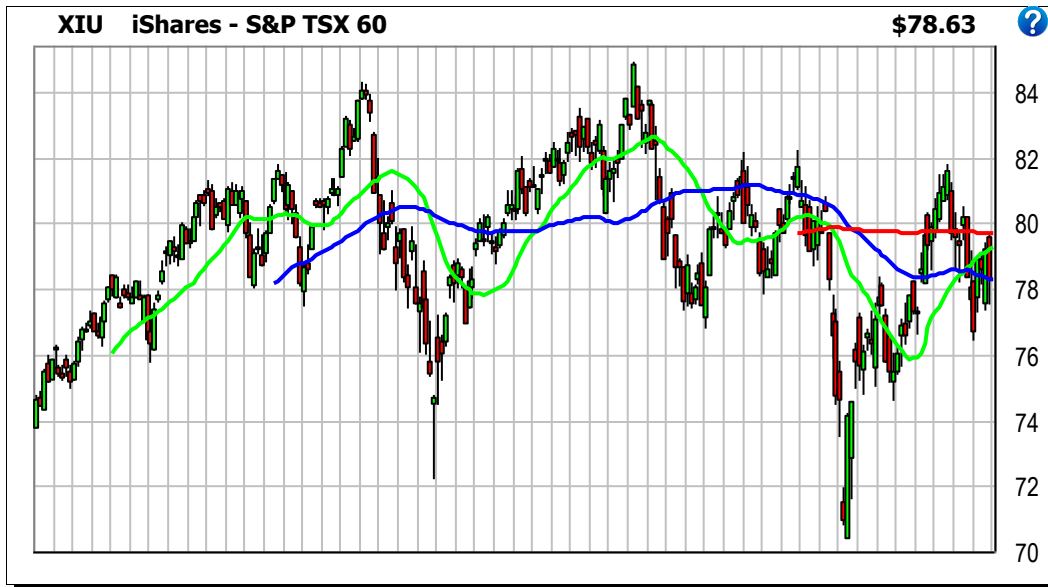


While financials still offer the best risk-reward ratio over the next three months, the sector is still viewed as a higher risk investment. One of our favorite longer-term bullish sectors (PBW - clean energy) offers a very good risk reward at the present time as does (PHO - global water). Somewhat surprising, the defensive healthcare sector has been hit a hard and now offers a good risk-reward ratio.

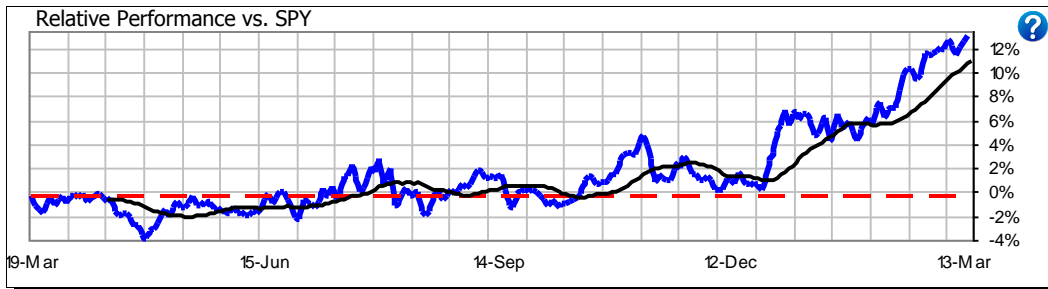
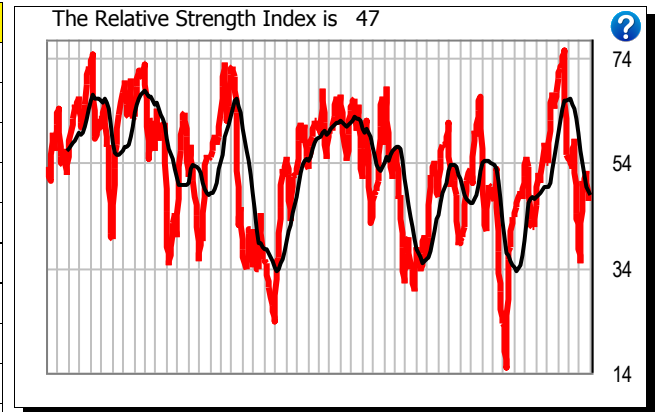
Core Canadian ETF Strategy



After moving to overbought readings in late February on the back of strong energy and materials sectors, we saw the anticipated correction back towards the developing support area. The combination of a stronger economy and a high component of commodity stocks in the index (close to 50%), should keep the TSX strong relative to many other G7 markets. We look for more of a trading range with the extreme oversold condition in financials now seen as a supportive factor for the TSX offset by the overbought condition in the material and energy sectors. Best TSX support area for the next few months (12,800 to 13,000), which translates to \$75-76 area for the XIU. We would add new long TSX exposure in this range. We expect strong resistance between 13,800 and 14,000 for the next few months, and would look to hedge (HXD) towards the top of the range.

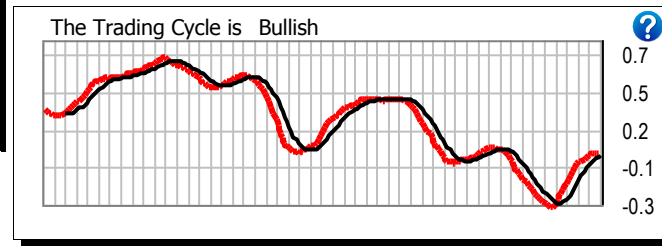
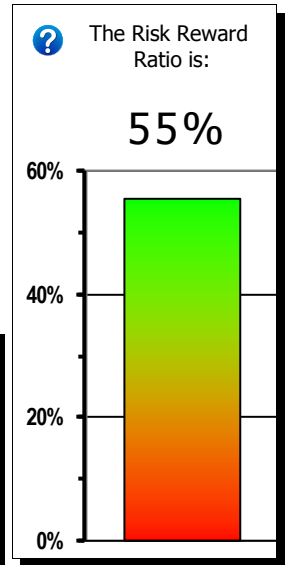


Key Levels ?	
52 Wk Hi:	\$87.00
52 Wk Lo:	\$70.71
P. Band Hi:	\$83.64
P. Band Lo:	\$73.57
21-D Avg:	\$79.52
50-D Avg:	\$78.19
200-D Avg:	\$80.02
Mth Av Rng	7.23%
Qtr Av Rng:	12.81%
Alpha:	10.6%
Beta:	0.72
Top 5	
ECA	5.6%
RY	5.6%
MFC	5.0%
POT	4.8%
SU	4.6%



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Qtrly Rank:	73%
Liquidity (\$Mil)	\$299.6



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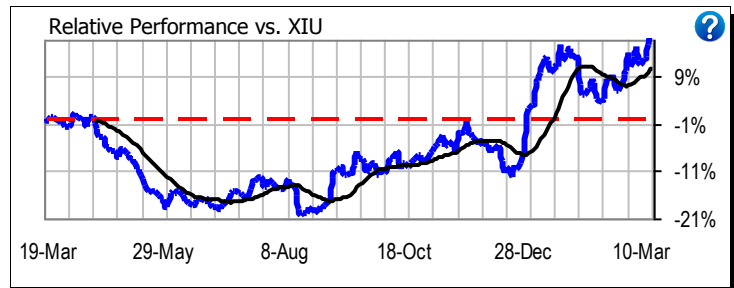
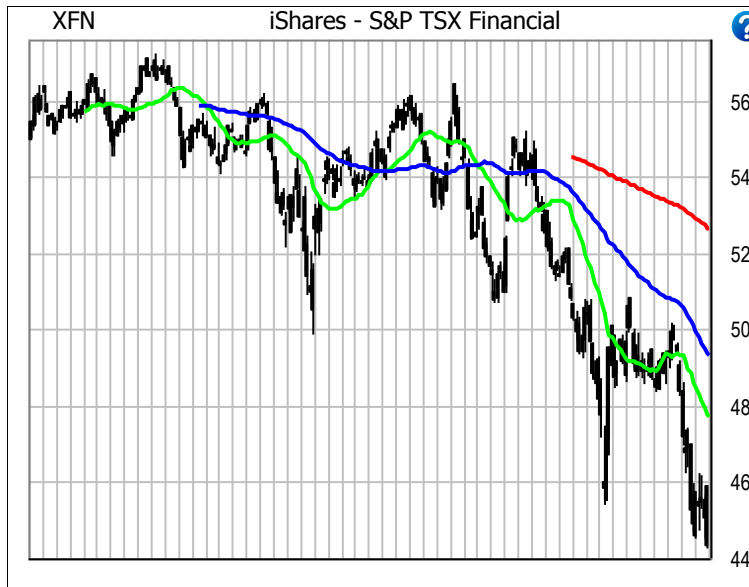
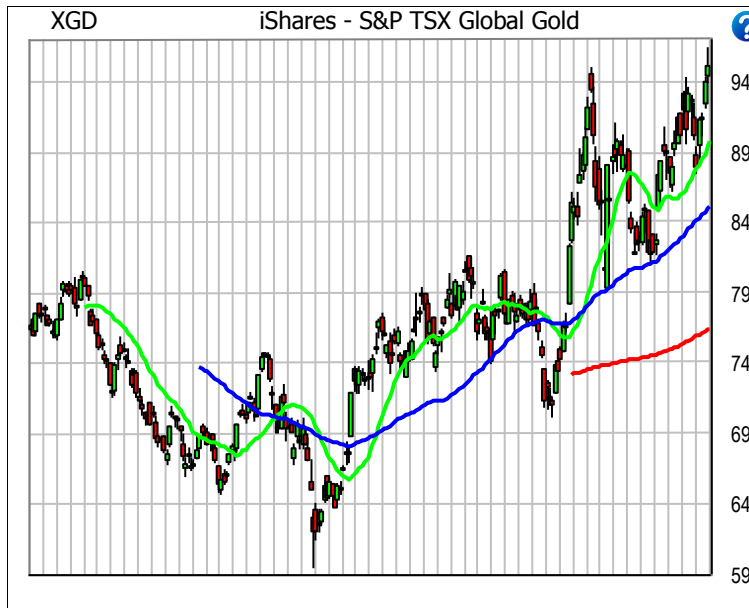
Canadian ETF Sector Alpha Strategy

Top Ranked Momentum Sectors

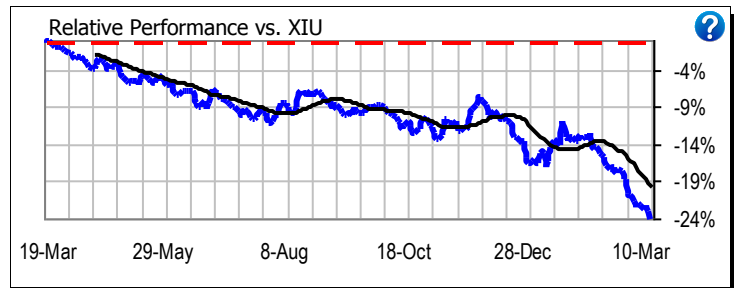
XGD	iShares - S&P TSX Global Gold
XMA	iShares - S&P TSX Materials
FXC	Rydex - Currency Trust CAD
XRB	iShares - S&P TSX Real Return Bonds
XGB	iShares - S&P TSX Government Bond
XBB	iShares - S&P TSX Bond Universe
XSB	iShares - S&P TSX Short-Term Bond
XCV	iShares - Value Index
CPD	Claymore - S&P TSX Preferred Share
XCG	iShares - S&P TSX Growth
EWC	iShares - MSCI Canada
XEG	iShares - S&P TSX Energy
XIU	iShares - S&P TSX 60
XIC	iShares - S&P TSX Composite
XCS	iShares - S&P TSX Small Cap
XTR	iShares - S&P TSX Income Trust
XMD	iShares - S&P TSX Mid Cap
XFN	iShares - S&P TSX Financial

Most Oversold Risk-Reward Ratio Sectors

XFN	iShares - S&P TSX Financial
XIT	iShares - S&P TSX Technology
XRE	iShares - S&P TSX REIT
CPD	Claymore - S&P TSX Preferred Share
XCV	iShares - Value Index
XMD	iShares - S&P TSX Mid Cap
XIC	iShares - S&P TSX Composite
XCS	iShares - S&P TSX Small Cap
XIU	iShares - S&P TSX 60
EWC	iShares - MSCI Canada
XCG	iShares - S&P TSX Growth
FXC	Rydex - Currency Trust CAD
XTR	iShares - S&P TSX Income Trust
XEG	iShares - S&P TSX Energy
XBB	iShares - S&P TSX Bond Universe
XGD	iShares - S&P TSX Global Gold
XMA	iShares - S&P TSX Materials



We are bullish on the gold sector as the best alpha pickup in the TSX. At this point, the broader XMA is also a strong relative performer due to the agricultural exposure that has been quite strong as well. Both sectors reached extreme overbought readings on the back of the weak US\$ and are likely to see some mean reversion. We see the \$1000 for gold as a resistance temporary hurdle that will likely be jumped later in '08. We are buyers of XGD below \$85.



Financials offer the best risk-reward ratio over the next three months, as the recent test of the January extreme offers a god entry location. We recommend accumulating a small position at this point, as the problems in the sector related to US housing could still be a drag for several months/quarters. Fixed-income ETFs are showing very poor risk reward and recommend cash rather than assuming much duration risk.

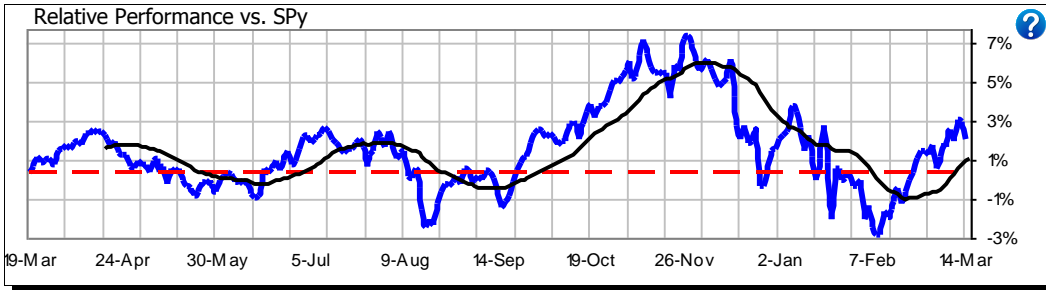
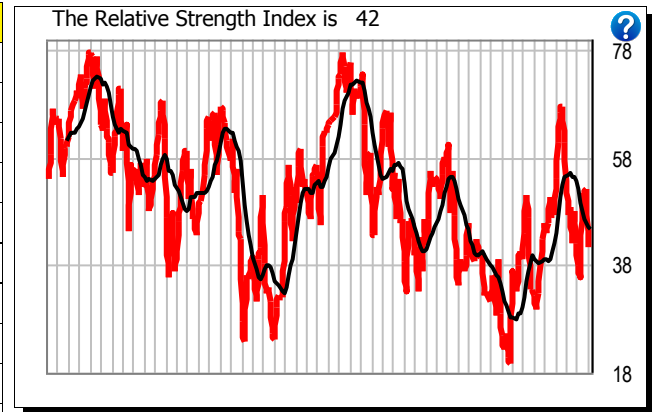
Core EAFE ETF Strategy



Our core EAFE strategy remains bearish relative to the US markets mainly because the relative strength in European markets has been largely attributed to the weaker dollar in the past few years. With dollar-euro above 1.55, we see it as a major headwind for European economic growth. In fact, the reluctance of the ECB to cut rates is likely to be bearish looking out 12 months. Japan remains in a recession and we have seen the yen rally from 124 to 100, which is now seen as a negative factor. The story remains bullish for Australia on the commodity theme (like Canada), but like Europe, the strong A\$ is seen as a headwind for US\$ ETF performance. Best support range for the EFA (\$67-68), where we would add exposure, but recognize that currency risks will likely be a major drag on performance looking into 2009 where we see dollar-euro closer to 1.35-1.40.

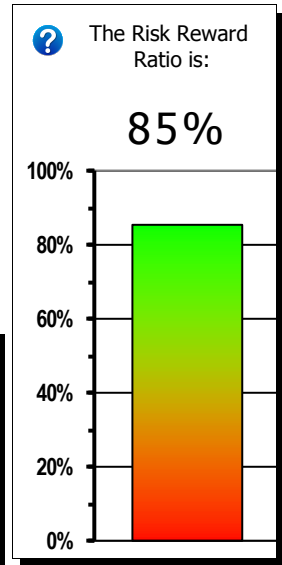
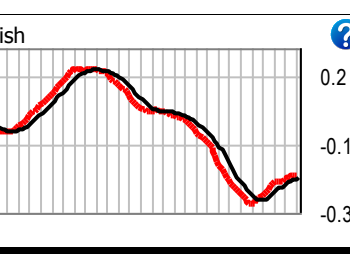


Key Levels ?	
52 Wk Hi:	\$86.50
52 Wk Lo:	\$65.63
P. Band Hi:	\$78.12
P. Band Lo:	\$68.92
21-D Avg:	\$71.43
50-D Avg:	\$72.06
200-D Avg:	\$78.60
Mth Av Rng	7.13%
Qtr Av Rng:	12.51%
Alpha:	2.1%
Beta:	0.98
Top 5	
BP/	1.7%
NESN	1.6%
HSBA	1.5%
FP	1.3%
VOD	1.3%



Relative performance is by far the most important technical characteristic when investing. Relative performance ranks highly in our modelling of the global ETF universe. Investors should add to core holding when core positions are statistically cheap. For more detail click here.

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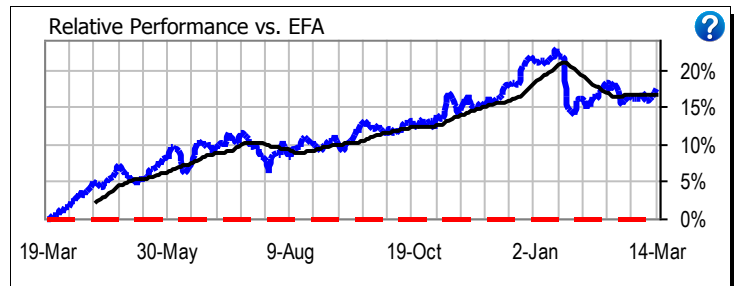
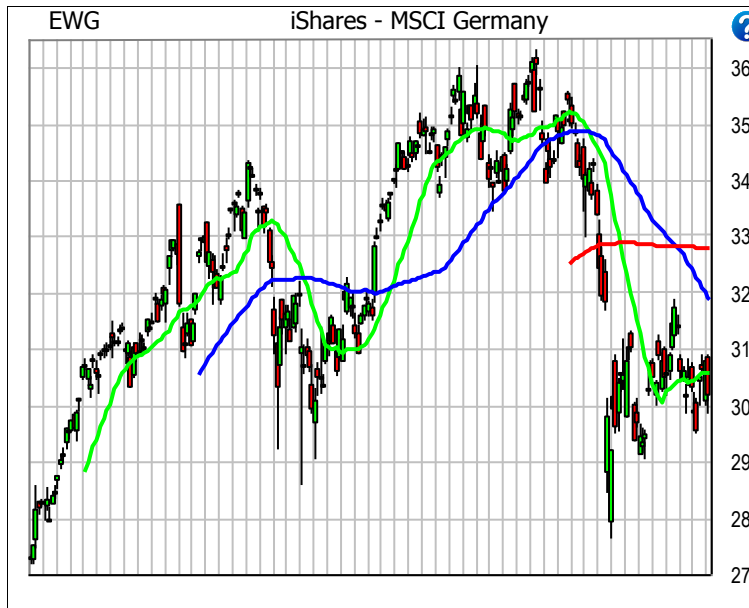
EAFE ETF Sector/Country Alpha Strategy

Top Ranked Momentum Countries

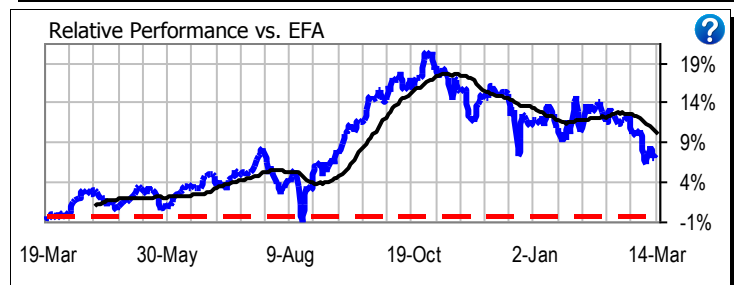
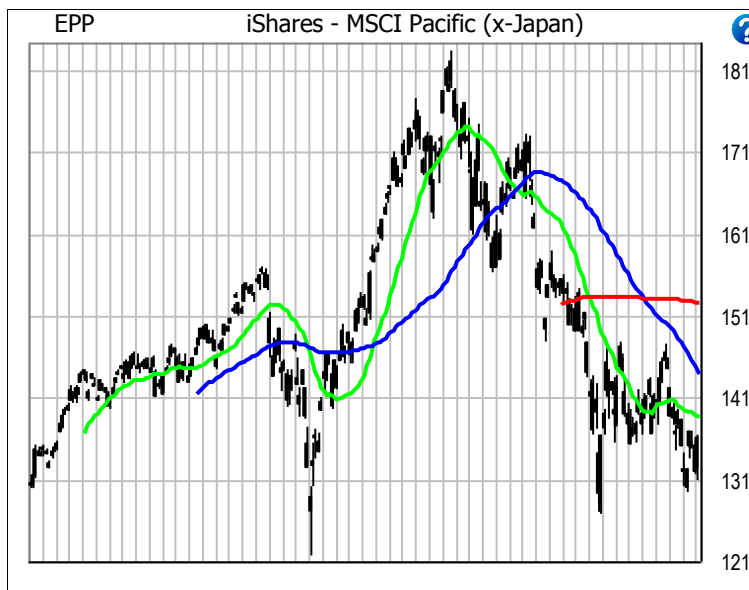
EWJ	iShares - MSCI Japan
EWL	iShares - MSCI Switzerland
EWQ	iShares - MSCI France
EWH	iShares - MSCI Hong Kong
VPL	Vanguard - Pacific
EWG	iShares - MSCI Germany
EWO	iShares - MSCI Austria
FEZ	StreetTracks - Dow Jones Euro 50
IEV	iShares - S&P Europe 350
EZU	iShares - MSCI EMU
VGK	Vanguard - Europe
EWS	iShares - MSCI Singapore
EWP	iShares - MSCI Spain
EWU	iShares - MSCI United Kingdom
EWI	iShares - MSCI Italy
EWA	iShares - MSCI Australia
EPP	iShares - MSCI Pacific (x-Japan)
EWD	iShares - MSCI Sweden

Most Oversold Risk-Reward Ratio Countries

EWH	iShares - MSCI Hong Kong
VPL	Vanguard - Pacific
EPP	iShares - MSCI Pacific (x-Japan)
EWJ	iShares - MSCI Japan
EWA	iShares - MSCI Australia
EWI	iShares - MSCI Italy
EWS	iShares - MSCI Singapore
EWU	iShares - MSCI United Kingdom
FEZ	StreetTracks - Dow Jones Euro 50
VGK	Vanguard - Europe
IEV	iShares - S&P Europe 350
EWG	iShares - MSCI Germany
EZU	iShares - MSCI EMU
EWQ	iShares - MSCI France
EWO	iShares - MSCI Austria
EWD	iShares - MSCI Sweden
EWP	iShares - MSCI Spain



Germany has remained in the top quadrant of relative performers over the past year outperforming EFA by over 15%. We continue to see Germany as a strong alpha country within EAFE. We like the longer-term outlook for Singapore and would look to accumulate some exposure on weakness. We are still short-term negative on Hong Kong as valuations are high relative to other Far East markets.



The most oversold parts of EAFE are large cap Europe (FEZ) and the Pacific (x-Japan) (EPP), which includes Australia, New Zealand, Singapore, and Hong Kong. It is likely too early in the cycle to be jumping at large cap Europe, but the Pacific mix could be accumulated. The benefit here is that the cross mix of currencies does not pose the same risk as we feel that Europe offers at this time.

Core Emerging Markets ETF Strategy

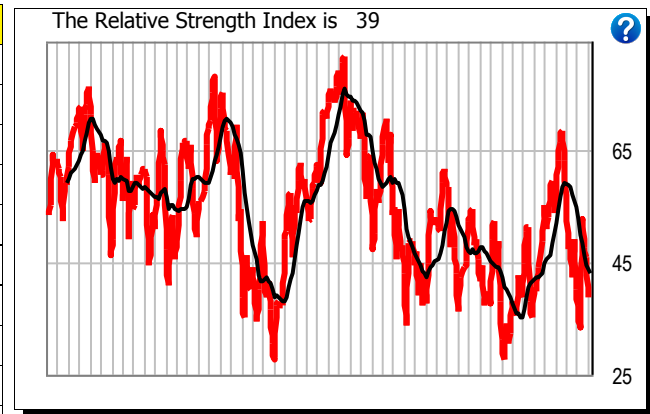


EMERGING MARKETS

Our core emerging markets strategy has moved from being defensive to the very early stage of looking for a market recovery. It is clear that the multi-year commodity boom, though cooling somewhat, is still a major driver of global demand growth. Naturally, emerging markets stand to benefit the most from this longer-term investment theme. We look to rebuild emerging market exposure during periods of global equity weakness. We have seen sufficient evidence post January correction that emerging markets should still outperform the US on trend. Core emerging market exposure should be increased with EEM closer to \$130. A break below \$125 would be considered bearish for any length of time longer than a retest of the January lows.

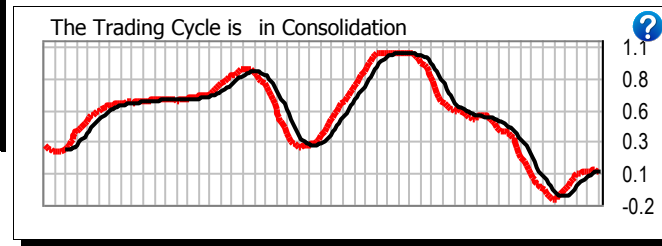
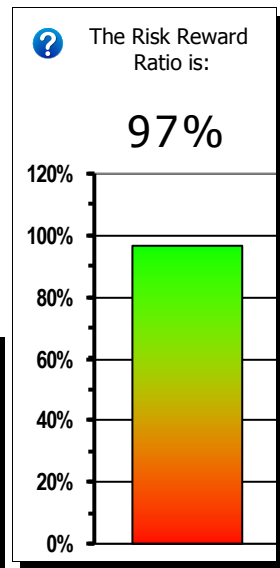


Key Levels	
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P. Band Lo:	\$128.80
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200-D Avg:	\$141.75
Mth Av Rng	9.88%
Qtr Av Rng:	17.63%
Alpha:	31.8%
Beta:	1.72
Top 5	
OGZD	4.0%
SMSN	3.1%
PBR/A	2.6%
TSM	2.6%
PBR	2.5%



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Qtrly Rank:	50%
Liquidity (\$Mil)	\$3,500.



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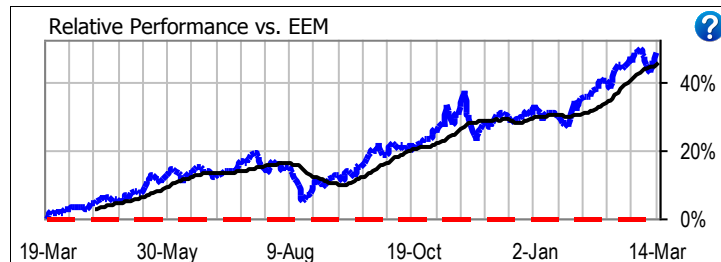


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Emerging Markets ETF Country Alpha Strategy

Top Ranked Momentum Countries

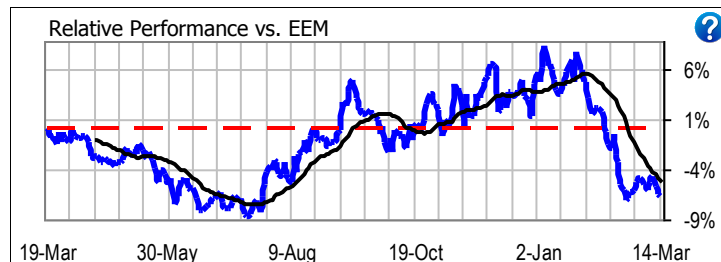
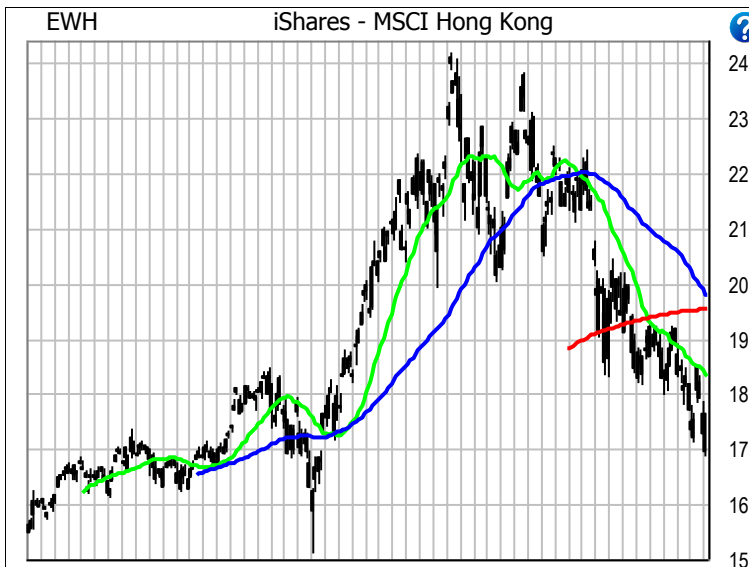
EWM	iShares - MSCI Malaysia
EWZ	iShares - MSCI Brazil
EWT	iShares - MSCI Taiwan
RSX	Van ECK - Russia
ADRE	Builders - Emerging Markets 50 ADR
EEB	Claymore - BRIC
CBQ	Claymore - BRIC US ADR
EEM	iShares - MSCI Emerging Market
EWV	iShares - MSCI Mexico
EZA	iShares - MSCI South Africa
EWY	iShares - MSCI South Korea
FXI	iShares - Xinhua China 25
PGJ	PowerShares - Golden Dragon China
INP	iPath - MSCI India



Brazil remains a strong outperformer (~50% in the past year) within emerging markets. The most recent rally has made it somewhat expensive and modestly overbought. New money should wait for a correction in the 5-10% range before adding new positions. Aggressive investors could reduce exposure with a view to buying the position back on a correction. The primary reason for the strong performance is the very high commodity weighting in the index.

Most Oversold Risk-Reward Ratio Countries

PGJ	PowerShares - Golden Dragon China
FXI	iShares - Xinhua China 25
INP	iPath - MSCI India
EWY	iShares - MSCI South Korea
EWM	iShares - MSCI Malaysia
EEM	iShares - MSCI Emerging Market
CBQ	Claymore - BRIC US ADR
EEB	Claymore - BRIC
ADRE	Builders - Emerging Markets 50 ADR
EZA	iShares - MSCI South Africa
EWZ	iShares - MSCI Brazil
EWV	iShares - MSCI Mexico
RSX	Van ECK - Russia
EWT	iShares - MSCI Taiwan



Hong Kong (EWH) is relatively cheap compared to broad emerging markets. However, we continue to see modest underperformance heading into the Olympics as a tremendous amount of capital has moved into China to play the convergence of H-shares to mainland China shares, which will likely be a drag on performance. China (FXI) has suffered from extreme valuation, and the China bear (FXP) can be used to hedge core emerging markets exposure.

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