

Cross-border shopping offers ETF diversity

U.S. funds are often cheaper, and come in more assorted flavours, market watchers say

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When it comes to investing in exchange-traded funds, investors might consider some cross-border shopping.

Canadians can't buy conventional U.S. mutual funds, but ETFs are borderless. And it can pay to check out American funds that are often cheaper, and come in more assorted flavours. "The fees tend to be lower," said Dan Hallett, a Windsor, Ont.-based fund analyst. "And you have a lot more choice - the broader indexes and their different style slices."

ETFs, which are akin to mutual funds and trade like stocks, typically track market or customized indexes.

When it comes to exposure to the U.S. stock market, Mr. Hallett often prefers low-fee, U.S. index-based ETFs since "most active managers can't outperform the index." He likes the Rydex S&P 500 Pure Value ETF with its annual fee of 0.35 per cent. Vanguard Total Stock Market ETF, which tracks the MSCI International US Broad Market Index and splits two-for-one on June 18, charges 0.07 per cent a year. "Seven basis points is about as cheap as you will find," he said. In Canada, the iShares S&P 500 Index ETF, which is hedged to Canadian dollars, charges 0.24 per cent a year.

While currency fluctuations can adversely affect returns - as Canada's dollar strengthens relative to the U.S. greenback - he is not concerned. "In the context of a balanced portfolio, the U.S. dollar exposure is not going to be huge," he said.

Don Vialoux, a technical analyst who runs timingthemarket.ca, likes U.S. ETFs right now because he is a "short-to-medium term bull [two to 18 months] on the U.S. dollar. "If you are looking to take advantage of the strengthening in the U.S. dollar, which we will probably get in the summer time, it could be an interesting kicker on your potential return."

While ETFs focused on energy, financial and mining are available in Canada, Canadians must go south to find ones targeting biotechnology, utilities and technology to get reasonable exposure, he said.

The iShares Canadian Technology Sector ETF, which tracks the eight-member S&P/TSX capped information technology index, is nearly 50 per cent dominated by Research In Motion Ltd. and Nortel Networks Corp. "If you buy the Technology SPDR [an ETF] in the States, you buy the whole kaboodle - all the technology stocks that are part of the S&P 500 Index," Mr. Vialoux said.

ETFs are a way to play seasonality trends. Biotechnology stocks tend to rise between the end of July and the end of December because information about drugs is released at conferences in this time, he said. "This has worked out nine out of the past 10 years, and the average gain period was 11.1 per cent." Biotech HOLDRS is a way to play this one, he said.

The U.S. ETF market also offers more opportunities to play individual country markets, said Larry Berman, chief investment officer of ETF Capital Management in Toronto.

The iShares EAFE (Europe, Australasia and Far East) Index ETF hedged to Canadian dollars is available in Canada. But investors who want exposure to individual countries such as Germany, Spain, or Japan, "have to buy it in the United States," said Mr. Berman, who also writes the weekly Global ETF Strategy Report.

In Canada, the Claymore BRIC ETF, which invests in Brazil, Russia, India and China, is the only fund investing in the Brazilian and Russian markets, whose valuation is cheaper than the two other countries, he said. In the United States, one can buy only Brazil through the iShares MSCI Brazil ETF, or Russia through Market Vectors Russia ETF.

To offset the slumping Chinese market, another strategy is to buy the Claymore BRIC ETF, and the U.S.-listed ProShares Ultrashort FTSE/Xinhua China 25 ETF, he added.

John DeGoe, a vice-president of Burgeonvest Securities Ltd., recommends U.S. ETFs like PowerShares Global Clean Energy for clients who want exposure to this niche. But he said he tends to stick to Canadian ETFs, partly to avoid U.S. estate taxes that can affect higher-net-worth individuals.

Som Seif, who heads the Canadian arm of Chicago-based ETF provider Claymore Group Inc., stresses that U.S. ETFs are designed for Americans. They lack bells and whistles, from hedging to differently taxed income, that are aimed at Canadians in domestic ETFs, he said. He notes that U.S. ETF providers are by law restricted from answering questions by Canadian investors. "And we can't talk about our U.S. products and market them to Canadian investors."

Samples of U.S. ETFs

Company name	Symbol	Friday's				
		52-week close	52-week High	52-week Low	Year-to-date price change	One-year price change
ProSh UIShrt China 25 E.T.F.	FXP-A	\$76.21	\$122.00	\$59.10	- 0.86%	-
PowerSh Glb Clean Enrgy E.T.F.	PBD-A	\$29.02	\$38.10	\$22.05	- 8.45%	-
Mrk Vectr Russia E.T.F.	RSX-N	\$55.58	\$59.58	\$36.28	9.11%	47.43%
Rydex S&P 500 Value E.T.F.	RPV-A	\$26.91	\$37.37	\$25.80	- 14.68%	- 25.4%
iShares MSCI Brazil E.T.F.	EWZ-N	\$94.80	\$102.21	\$46.61	17.47%	68.65%
Vangrd Total Stock Mrkt E.T.F.	VTI-A	\$136.99	\$156.51	\$120.00	- 5.62%	- 7.56%
HOLDRs Biotech E.T.F.	BBH-A	\$167.76	\$185.78	\$154.96	3.71%	- 4.93%
SPDR Technology E.T.F.	XLK-A	\$24.72	\$28.60	\$19.76	- 7.28%	- 1.08%

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