

Exchange-Traded Funds: Attractive Investments in Today's Markets

Most Actively Traded Exchange-Traded Funds

It comes as no surprise that global economies and investments took their licks over the last year and a half. The MSCI World Index reached an all-time high on October 31, 2007 before falling a staggering 59% through March 9, 2009. The Dow Jones Industrial Average fell 54% from its peak on October 9, 2007 through the trough hit on March 9 of this year. Since that bottom, the MSCI World and Dow have gained 34% and 27%, respectively through May 22. That's right – investors with perfect market timing could have gained 34% through a global stock index in a mere 11 weeks! Of course though, no one has perfect market timing. In fact, statistics proves that only the very lucky, and occasionally the truly gifted, have beaten the market in the long-term by market timing.

So how can average investors gain exposure to such market gains, without trying to time the market to the minute? As part of a strategically allocated portfolio of stocks, mutual funds, bonds, and alternative assets, we recommend Exchange-Traded Funds (ETFs) as an efficient way to gain exposure to markets or sectors with high prospects. An introductory report to ETFs is available at <http://www.lom.com/market-research>.

Using average trading volume, we've ranked the most popular ETFs over the last two and a half months. A few notable trends emerged, and while past trends aren't indicative of future performance, it may be helpful to know what industries or markets have garnered the most investor attention recently.

Financial Services Sector Funds made up 4 of the top 10 ETFs by volume, including Direxionshares Financial Bull 3X (FAS), Direxionshares Financial Bear 3X (FAZ), Financial Select Sector SPDR (XLF), and Proshares Ultra Financials (UYG). Both Direxionshares Financial Bull 3X and Bear 3X had large increases in trading volume that brought them into the top 5 most actively traded ETFs recently. Financial stocks have shown huge volatility recently, and these four ETFs give investors exposure to either 300% of the price performance of the Russell 1000 Financial Services Index (via FAS "Bull" and FAZ "Bear"), 200% of the DJ U.S. Financials Index (via UYG), or the unleveraged return of the Financial Select Sector (via XLF). If you can gauge where Financials are moving on any given day, these ETFs might be for you. Take note though that leveraged ETFs are based on daily price performance, and thus are only suitable for short-term investments. Holding a leveraged ETF for too long can actually yield a negative return when the benchmark was positive overall because returns are compounded daily.

China Country Funds constituted another 4 of the top 10 ETFs by volume. These ETFs are unleveraged and include the China 50 ETF (510050 CH), the E Fund SI100 Index Fund (159901 CH), AIG Huatai Dividend ETF (510880 CH), and the iShares A50 China Tracker (2823 HK). If securities listed in China or Hong Kong aren't suitable, the iShares FTSE/Xinhua China 25 Index Fund (FXI) and the Powershares Golden Dragon Halter USX China Portfolio (PGJ) are listed in the U.S. As the third largest economy in the world, China has attracted the attention of many investors for its strong financial health and high GDP growth (especially relative to growth in developed economies). In the first few months of 2009, retail sales and industrial output in China have contributed to optimism for Chinese stocks.

U.S. Equity Index Funds continue to be popular staples for investors focusing on major indices. These include the remaining 2 of the top 10 most actively traded ETFs, the SPDR Trust Series 1 (SPY), which tracks the S&P 500, and the Powershares QQQ (QQQQ), which follows the NASDAQ 100. Other notable U.S. index ETFs include the iShares Russell 2000 Index Fund (IWM) and the DIAMONDS Trust Series 1 (DIA), which correspond to the Russell 2000 Index and the Dow Jones Industrial Average.

Real Estate Sector Funds made up 3 of the top 20 ETFs by volume. Real estate has been a focal industry ever since the housing bubble collapsed. Recently, investors have started to turn bullish on real estate again on hopes that green shoots are starting to sprout. The ETFs include the iShares Dow Jones U.S. Real Estate Index Fund (IYR), which is long and unleveraged, the Proshares Ultra Real Estate ETF (URE), a double-long ETF, and the Proshares UltraShort Real Estate ETF (SRS), which is double-short. These three ETFs track (in one manner or another) the Dow Jones U.S. Real Estate Index. There are plenty of other real estate ETFs that track different indices, such as the SPDR S&P Homebuilders ETF (XHB) and the Vanguard REIT ETF (VNO).

Investment Considerations

The ETFs mentioned above and in the table below are not intended to represent specific trade ideas. Please contact your LOM Investment Advisor for recommendations tailored to your investment needs.

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| Rank in Vol. | Ticker | Name | Objective | Underlying Index Ticker | Currency | Leverage | Avg. Vol. 30 Day (mm) | Rank Change (vs. Feb. Volume) | % Change in 1M Volume | 1 Month Return |
|--------------|------------|------------------------------|--------------------------------|-------------------------|----------|----------|-----------------------|-------------------------------|-----------------------|----------------|
| 1 | 510050 CH | CHINA 50 ETF | Value-not Market Cap dependent | SSE50 | CNY | No | 783.3 | +0 | 3% | 6% |
| 2 | FAS US | DIREXION DAILY FIN BULL 3X | Sector Fund-Financial Service | RGUSFL | USD | Yes | 291.1 | +7 | 173% | -1% |
| 3 | SPY US | SPDR TRUST SERIES 1 | Growth-Large Cap | SPX | USD | No | 278.8 | -1 | -27% | 4% |
| 4 | FAZ US | DIREXION DAILY FINL BEAR 3X | Sector Fund-Financial Service | RGUSFL | USD | Yes | 263.6 | +29 | 1293% | -38% |
| 5 | 159901 CH | E FUND SI100 INDEX FUND | Value-not Market Cap dependent | SI100 | CNY | No | 215.5 | +3 | 95% | 7% |
| 6 | XLF US | FINANCIAL SELECT SECTOR SPDR | Sector Fund-Financial Service | IXM | USD | No | 208.3 | -3 | -13% | 6% |
| 7 | 510880 CH | AIG HUATAI DIVIDEND ETF | Income Equity | SSEDIV | CNY | No | 183.6 | +0 | 42% | 4% |
| 8 | QQQQ US | POWERSHARES QQQ | Growth-Large Cap | NDX | USD | No | 142.7 | -3 | -15% | 3% |
| 9 | UYG US | PROSHARES ULTRA FINANCIALS | Sector Fund-Financial Service | DJUSFN | USD | Yes | 125.3 | -5 | -28% | 4% |
| 10 | 2823 HK | ISHARES A50 CHINA TRACKER | Growth-Large Cap | XIN50 | HKD | No | 84.5 | -4 | -37% | 7% |
| 11 | EEM US | ISHARES MSCI EMERGING MKT IN | Emerging Market-Equity | NDUEEGF | USD | No | 65.4 | +0 | -20% | 7% |
| 12 | IWM US | ISHARES RUSSELL 2000 | Growth-Small Cap | RTY | USD | No | 60.4 | +0 | -16% | 4% |
| 13 | SSO US | PROSHARES ULTRA S&P500 | Growth-Large Cap | SPX | USD | Yes | 58.8 | -3 | -35% | 7% |
| 14 | IYR US | ISHARES DJ US REAL ESTATE | Sector Fund-Real Estate | DJUSRE | USD | No | 51.7 | +0 | 18% | 1% |
| 15 | SKF US | PROSHARES ULTRASHORT FINANCI | Sector Fund-Financial Service | DJUSFN | USD | Yes | 46.3 | +9 | 47% | -23% |
| 16 | SDS US | PROSHARES ULTRASHORT S&P500 | Growth-Large Cap | SPX | USD | Yes | 45.9 | -3 | -10% | -10% |
| 17 | NAFTRAC MM | NAFTRAC - 02 | Growth-Large Cap | MEXBOL | MXN | No | 45.3 | +8 | 48% | 7% |
| 18 | URE US | PROSHARES ULTRA REAL ESTATE | Sector Fund-Real Estate | DJUSRE | USD | Yes | 41.5 | +9 | 72% | -5% |

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|----|------------|------------------------------|---------------------------------|----------|-----|-----|------|-----|------|------|
| 19 | SRS US | PROSHARES ULTRASHORT REAL ES | Sector Fund-Real Estate | DJUSRE | USD | Yes | 35.4 | +10 | 52% | -21% |
| 20 | EWJ US | ISHARES MSCI JAPAN INDEX FD | Country Fund-Japan | NDDUJN | USD | No | 31.0 | +3 | -4% | 7% |
| 21 | 159902 CH | CHINA SME ETF | Growth-not Market Cap dependent | SMEBI | CNY | No | 27.3 | -4 | -32% | 4% |
| 22 | EFA US | ISHARES MSCI EAFE INDEX FUND | International Equity | NDDUEAFE | USD | No | 26.0 | -1 | -26% | 7% |
| 23 | FXI US | ISHARES FTSE/XINHUA CHINA 25 | Country Fund-China | XIN0I | USD | No | 25.6 | -5 | -35% | 2% |
| 24 | QLD US | PROSHARES ULTRA QQQ | Growth-Large Cap | NDX | USD | Yes | 24.0 | -4 | -34% | 5% |
| 25 | XLE US | ENERGY SELECT SECTOR SPDR | Sector Fund-Energy | IXE | USD | No | 22.3 | -10 | -46% | 7% |
| 26 | HOU CN | HORIZONS BETAPRO NYMEX CRUDE | Sector Fund-Financial Service | N.A. | CAD | Yes | 22.2 | +4 | 0% | 12% |
| 27 | ILCTRAC MM | ISHARES IPC LARGE CAP T R TR | Growth-Large Cap | IRTLARGE | MXN | No | 22.1 | +53 | 362% | 7% |
| 28 | 0050 TT | POLARIS TAIWAN TOP50 TRACKER | Growth-Large Cap | TW50 | TWD | No | 22.0 | +9 | 29% | 13% |
| 29 | 2800 HK | TRACKER FUND OF HONG KONG | Growth-Large Cap | HSI | HKD | No | 22.0 | +12 | 53% | 9% |
| 30 | QID US | PROSHARES QQQ ULTRASHORT | Growth-Large Cap | NDX | USD | Yes | 20.2 | -4 | -19% | -7% |
| 31 | EWZ US | ISHARES MSCI BRAZIL | Country Fund-Brazil | NDUEBRA | USD | No | 19.9 | +0 | -9% | 10% |
| 32 | XIU CN | ISHARES CDN S&P/TSX 60 INDX | Growth-not Market Cap dependent | SPTSX60 | CAD | No | 19.5 | +2 | 7% | 6% |
| 33 | BGU US | DIREXION DLY LG CAP BULL 3X | Growth-Large Cap | RIY | USD | Yes | 18.4 | +2 | 3% | 10% |
| 34 | SMH US | SEMICONDUCTOR HOLDRS TRUST | Sector Fund-Technology | XSH | USD | No | 17.8 | +4 | 9% | -2% |
| 35 | EWT US | ISHARES MSCI TAIWAN INDEX FD | Region Fund-Geo Focused-Eqty | NDEUSTW | USD | No | 17.3 | +15 | 57% | 11% |
| 36 | DIA US | DIAMONDS TRUST SERIES I | Growth-Large Cap | INDU | USD | No | 17.3 | -14 | -49% | 4% |
| 37 | TNA US | DIREXION DLY SM CAP BULL 3X | Growth-Small Cap | RTY | USD | Yes | 16.5 | +12 | 44% | 8% |
| 38 | XRT US | SPDR S&P RETAIL ETF | Sector Fund-Undefined Equity | SPSIRE | USD | No | 14.8 | +21 | 86% | 3% |

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|----|------------|------------------------------|--------------------------------|----------|-----|-----|------|-----|------|------|
| 39 | USO US | UNITED STATES OIL FUND LP | Commodity | N.A. | USD | No | 14.7 | -23 | -63% | 7% |
| 40 | ISF LN | ISHARES PLC-ISHARES FTSE 100 | Growth & Income-Large Cap | UKX | GBp | No | 13.3 | +7 | 12% | 10% |
| 41 | UNG US | US NATURAL GAS FUND LP | Commodity | N.A. | USD | No | 12.9 | +44 | 197% | 8% |
| 42 | DIG US | PROSHARES ULTRA OIL & GAS | Sector Fund-Energy | DJUSEN | USD | Yes | 12.7 | -10 | -35% | 10% |
| 43 | GLD US | SPDR GOLD TRUST | Commodity | GOLDLNPM | USD | No | 12.0 | -15 | -49% | 5% |
| 44 | XLI US | INDUSTRIAL SELECT SECT SPDR | Sector Fund-Undefined Equity | IXI | USD | No | 11.7 | +1 | -6% | 7% |
| 45 | IYF US | ISHARES DJ US FINANCIAL SECT | Sector Fund-Financial Service | DJUSFN | USD | No | 11.7 | -3 | -15% | 5% |
| 46 | KBE US | SPDR KBW BANK ETF | Sector Fund-Financial Service | BKX | USD | No | 11.3 | +18 | 48% | 5% |
| 47 | XHB US | SPDR S&P HOMEBUILDERS ETF | Sector Fund-Real Estate | SPSIHO | USD | No | 10.9 | +6 | 6% | 1% |
| 48 | 510180 CH | SHANGHAI SSE180 INDEX FUND | Value-not Market Cap dependent | SSE180 | CNY | No | 10.3 | +9 | 23% | 6% |
| 49 | XACBEAR SS | XACT BEAR | Country Fund-Sweden | OMX | SEK | Yes | 10.1 | +18 | 51% | -12% |
| 50 | BGZ US | DIREXION DLY LG CAP BEAR 3X | Growth-Large Cap | RIY | USD | Yes | 9.4 | +5 | 4% | -15% |