Top Three ETFs For 2014!

ETF TRADING RESEARCH

Three ETFs Ready To Takeoff In 2014

"Investors worldwide have become more focused on broad diversification, low investment costs, and transparency—the key characteristics of ETFs."

-Vanguard | July 2013

Exchange traded funds (ETFs) have become an essential piece of the puzzle for long-term investors and fast moving traders alike. Today US ETFs have $1.5 trillion in assets in more than 1,100 different ETFs. And according ETF provider iShares, that number could balloon to $3.5 trillion in the next five years.

What exactly is an ETF?

Exchange traded funds are an investment fund. They pool investor money and invest it in a basket of assets… typically stocks, bonds, or commodities. They are traded on the stock exchanges just like stocks.

Why ETFs?

Many investors are familiar with mutual funds. After all, mutual funds are often the only choice investors have in their 401k.

But ETFs have a few advantages over mutual funds.

First, ETFs trade intra-day. This simply means you can buy and sell ETFs throughout the trading day. Mutual fund shares on the other hand may only be purchased or redeemed after the close of the market.

Second, ETFs are liquid. Market makers and specialists create the shares of an ETF based on demand. So, you will always be able to buy and sell your shares at the best possible price.

Third, ETFs are low cost. ETFs and mutual funds both charge management fees. While mutual fund fees are typically around 2.5% or more, ETFs charge just 0.5% on average. The much lower fees charged by ETFs means you put more money in your pocket over the long run. What's more, some ETFs can be **traded commission free** with certain brokers.

These appealing characteristics have made ETFs extremely popular with investors and trader alike. As a result, ETF developers are quickly expanding their product offerings by creating a wide variety of focused ETFs.

These new ETFs make investing in everything from gold to foreign stocks and even executing complex hedge fund style long/short strategies as simple as buying and selling a stock.

If there's an investable asset there's a good chance there's an ETF to invest in it.

In short, ETFs give you a simple, low cost, and flexible way to execute just about any investment strategy.   Now let's jump into my top 3 ETF trades for 2014…

ETF Trade #1: Accelerating European Growth

"We have greater conviction in an earnings recovery [in European] equity markets contrary to popular perceptions; and we expect easy monetary conditions to facilitate an additional 10% multiple expansion."

-Robert Quinn, S&P Capital IQ | June 2013

Over the last few years Europe has been plagued by a number issues.

The 17 countries making up the EuroZone have dealt with a sovereign debt crisis, high unemployment, and a recession that lasted a year and half.

The EuroZone economy finally emerged from the recession in 2nd quarter of 2013. Make no mistake - the 0.3% 2nd quarter growth rate is an important turning point for European stocks.

Think of it this way, would you invest in US stocks in June of 2009 when the US economy exited its own year and half long recession?

I know I would!

In the following year the S&P 500 soared 11.6% from 920 to 1,027. By July 1st of 2011 it hit 1,341 – a 34% jump. And in four years the large cap index is up a whopping 80%!

Here's why we believe European stocks are on the verge of repeating the stellar performance of their US counterparts in the coming years.

It all starts with the ECB – European Central Bank.

The ECB has pledged to keep its policy interest rate at a record low 0.5% for "an extended period of time." And could even cut it to 0.25% or engage in quantitative easing like the US and Japan.

In short, the ECB is done messing around. They're going to play the same games with their monetary policy that has fueled the amazing gains we've seen in US over the last few years.

If there's one thing we've learned about monetary policy from the US, it's that easy monetary policy can juice corporate earnings growth.

As they say, don't fight the Fed. Or in this case, don't fight the ECB.

What's more, European stock ETFs are attracting some serious money. US investors are cashing in their shares of US stock ETFs and putting the money to work in European ETFs. This is a trend we expect to continue in the coming months.

The combination of economic growth, an ECB supporting it with low interest rates, and renewed investor interest is a potent combination.

Given our bullish outlook for European equities, we recommend you add a European stock ETF to your portfolio right away. The one we like best is **iShares MSCI EMU ETF** (EZU).

EZU provides exposure to stocks in countries that use the Euro currency. It's a popular ETF with more than $3 billion in assets under management.

The portfolio is diversified across 245 stocks in a diverse group of sectors with financials (21%), industrials (14%), and consumer discretionary (13%) leading the way.

The direct exposure to stocks under the umbrella of the ECB should drive EZU higher in the coming months

Now, let's look at another trade idea...

ETF Trade #2: Generate A Steady Monthly Income Stream With This Actively Managed ETF

"While [Actively Managed ETFs] make up just 1 percent of ETF assets, they account for 19 percent of assets in the 87 ETFs launched [in 2013]."

- Bloomberg | August 2013

Exchange traded funds we're originally designed as low-cost passively managed investments. In other words, they track an index of stocks like the S&P 500.

This style of management gave investors a great deal of transparency into what they are actually buying when they buy an ETF. You know exactly what stocks or other assets the ETF holds and what percentage of assets is allocated to each one.

But sometimes passive management isn't the best option...

Actively managed investment strategies use a professional portfolio manager. They select the stocks, bonds, futures, or other assets to invest in.

This type of strategy has the ability to react to changing market conditions and outperform index benchmarks.

Obviously, having someone managing the investments can have its advantages... especially when it comes to more complex or unusual investments.

Actively managed strategies have long been the hallmark of mutual funds. But in the last few years a new breed of ETFs – Actively Managed ETFs – have sprouted.

These ETFs combine the benefits of ETF investing like liquidity, transparency, tax efficiency, and low-cost. Plus, you get a professional money manager and all of the benefits of active management.

One actively managed ETF we like is the **SPDR Blackstone/GSO Senior Loan ETF** (SRLN). If you're an income investor - you're going to absolutely love SRLN.

As the name suggests, SRLN invests in debt secured by senior loans made to US and non-US companies. These loans typically represent the most senior debt of a company. If the company goes bankrupt or defaults, these loans are first in line to make a claim on any assets.

The senior loan market isn't like the stock market. The securities aren't traded on an exchange in a transparent way. And it's virtually impossible for an individual investor to access this market on their own.

Experienced portfolio managers that manage SRLN are able to acquire loans before they are added to an index or remove loans from the portfolio before they are removed from an index. What's more, they can decide whether or not they want to hold the debts of specific companies based on their judgments.

What's so special about senior loans?

The objective of SRLN is to provide current income while preserving capital.

To that end, the interest rate companies' pay on their senior debt adjusts frequently.

More specifically, the interest rate on these below investment grade loans adjusts every three months or less. The interest rate is set at a specific percentage above LIBOR (London Inter-Bank Offer Rate).

The variable rate on the debts SRLN invests in gives it a distinct advantage over other income generating investments in a rising or falling interest rate environment.

First off, SRLN pays a monthly dividend. The consistent monthly distributions are great for investors living off income distributions.

As of this writing SRLN has annual yield of 2.88%. A $200,000 investment in SRLN routinely pays out around $500 every month.

And here's the best part… since the rates are floating the payouts shouldn't change and the principle balance should remain stable even as interest move up and down.

That's a reassurance few investments can give in rising interest rate environment. And one that every income investor will love.

Now for our final trade idea…

ETF Trade #3: A Hot Growth Opportunity We Know You'll 'Like'

"Corporations are committing larger percentages of advertising budgets to the internet as people spend more time online"

-S&P Capital IQ | September 2013

Social media has taken the world by storm over the last few years.

Facebook (FB) has changed how people connect and share with friends and family. **LinkedIn** (LNKD) has taken professional networking to a new level, **Pandora** (P) has changed the way we listen to music, **Groupon** (GRPN) has changed the way we shop and taken coupons and discounts into the digital age, and the list goes on and on…

There's no denying these internet companies have changed the way we live our lives today. But they've only scratched the surface of their potential.

You see, these companies are pioneers in new and never before seen business models.

But one thing remains the same between these 'new media' and 'old media' companies like television, newspapers and magazines…. They make money by advertising.

Here's what makes social media stocks such a great growth opportunity.

US online advertising revenues are growing like crazy. They rose 15% in 2010, 22% in 2011, and 15% in 2012. And they're expected to continue growing at around 15% per year for at least the next few years.

Needless to say, that's some impressive growth and some serious growth potential.

However, one major hurdle has held investors back from going completely gaga over social media companies…

People are changing how they consume the internet. They're cutting the cord from their desktops and laptops and going mobile with devices like tablets and smartphones.

Obviously, the big change between the two is the size of the screen. Desktops and laptops have much bigger screens and lots of space to advertise. Tablets and smartphones have smaller screens and less space to advertise.

Initially social media companies struggled to adapt to mobile. But the tide turned in 2013. Today companies are monetizing their mobile platforms at an amazing rate.

Clearing this hurdle is a major breakthrough and the key to long term success for social media stocks. And here's the best part, social media stocks still don't reflect the full potential for mobile advertising revenue growth.

But that's not all...

Up to this point I've only focused on the US market. But social media isn't confined to the US. Social media is exploding on a global level as well.

For example, just look at what's going on in China. There are now 591 million internet users in China.... That's almost double the amount people we have in the US. And that's still just 44% of all Chinese people using the internet.

If that doesn't scream growth potential, nothing does.

To take advantage of the amazing growth opportunity in social media stocks we recommend buying the **Global X Social Media Index ETF** (SOCL).

SOCL is unique from other ETFs in that it's currently the only one dedicated to social media stocks. As I write, SOCL is composed of 27 stocks. It has net assets in excess of $65.5 million.

The total expense ratio is 0.65%. It hasn't paid a dividend yet - but don't forget this investment is all about growth, not income.

The fund's top holdings are the hottest name in social media. They include Facebook, Pandora, LinkedIn, Groupon, **Yelp** (YELP), **Angie's List** (ANGI), as well as several Chinese stocks like Tencent Holdings and Sina (SINA), and even Yandex (YNDX) the largest internet search engine in Russia, and Japan's DeNa Co.

What's more, another social media giant, **Twitter** (TWTR), is going to have its IPO. (As of this writing Twitter hasn't had its IPO yet.) And SOCL has already announced they'll be adding TWTR to their holdings as soon as it's available.

In my opinion, SOCL is the best opportunity to grow your bank account in 2014.

A Final Word

I've given you a lot of information in this report. There's no guarantee every investment I've discussed is right for you.

But it's easy to see ETFs are a simple and convenient way to invest in Europe's recovery, generate a monthly income stream by investing in senior notes, or jump on one of the hottest growth opportunities around in social media stocks.

Remember this...

'*If you do what you've always done, you'll get what you've always gotten.*"

–Tony Robbins

Now it's up to you to make it happen.

Best of luck in 2014, I hope you have make all of your dreams a reality.

Sincerely,

Corey Williams,

Senior ETF Strategist
ETF Trading Research

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