TOP 3 ETFs for 2015!

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Three ETFs To Own In 2015

"ETFs have evolved into a standard instrument in the toolboxes of institutional investors… is just one sign of the building momentum of ETFs."

-Greenwich Associates | 2014

Exchange traded funds (ETFs) are great tools for long-term investors and short-term traders alike. It's why there's nearly $2 trillion invested in more than 1,600 US listed ETFs today… and it's why ETF assets are expected to expand 15% per year in the US.

They're just a great way to put your money to work.

Why ETFs?

Put simply, **exchange traded funds combine the best features of mutual funds and stocks.**

First off, the most popular ETFs track a diversified group of stocks just like a mutual fund. So, the performance of an ETF is tied to an entire basket of stocks.

And secondly, ETFs trade during the day just like a stock.

So, ETFs are essentially diversified funds that trade like stocks.

But that's not all…

ETFs also come with unparalleled transparency, lower fees, and tax benefits that you can't get in mutual funds. These extra perks really set ETFs apart from the competition.

Today there are more than 1,600 different ETFs tracking stocks, bonds, commodities, or some other kind of asset. 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 2015…

ETF Trade #1: Smart-Beta India ETF

"39% of surveyed investors want to learn more about strategic beta products that use fundamental or equal weightings and minimize market volatility. Among this same group of people, eight out of 10 want to know how to deploy these types of ETFs inside their portfolios."

-Charles Schwab | 2014 Investor Study

The smart-beta ETF buzzword exploded onto the scene in 2014.

What makes and ETF smart?

The smart-beta moniker has been attached to any ETF that doesn't weight the stocks according to market-capitalization.

ETFs that use these alternative strategies live in the middle area between passive and active management. And they've become popular for one simple reason… they work!

Many of these ETFs with alternative indexes have more attractive risk-adjusted returns than market-cap weighted indexes.

It makes sense, just because a company is really big doesn't mean it is a better investment than a smaller company. That's the problem smart-beta ETFs have been attempting to solve.

Right now, investing in India is the perfect place to deploy an alternatively weighted or smart-beta ETF.

Some quick facts about India – it has the second largest population in the world. An astonishing 1.2 billion people live in the country.

They have the 4th largest economy in the world. But are 169th on a per capita basis… so, there's lots of room for growth.

New leadership has swept into power in the world largest democracy. And with it comes a fantastic investment opportunity.

The BJP political party taking control of the government is a major win for business and currency stabilization. They're enacting reforms that will lay the ground work long term economic growth.

The **WisdomTree India Earnings Fund** (EPI) is uniquely positioned to reap the reward of currency stabilization and economic improvement in India.

EPI tracks an index of all profitable companies within India's stock markets. That's currently more than 230 stocks.

This smart-beta ETF gives investors exposure to more stocks that fall into cyclical sectors than any other ETF that focuses on India.

Needles to say, these are the type of stocks that should have the best performance as the Indian economy improves.

What's more, since EPI weights stocks based on earnings it's not limited to just large cap stocks. As long as the company is profitable it can be found in EPI.

The exposure to stocks with the best earnings stream is a great way to invest in India.

Now, let's look at another trade idea…

ETF Trade #2: Actively Managed ETFs Are An Income Investors Dream Come True

"At the end of June, there was $16.21 billion invested across 89 actively managed ETFs."

- AdvisorShares | July 2014

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 the explosion of smart-beta ETFs is rapidly changing the ETF landscape...

Today actively managed ETFs are quickly gaining traction with investors. 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.

Today, two of the fastest growing areas of the ETF industry are fixed income and actively managed ETFs. 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 **Advisor Shares Madrona Global Bond ETF** (FWDB). If you're an income investor - you're going to absolutely love FWDB.

As many retirees that depend on fixed income know, the 33-year rally in the bond market ended in 2013. And navigating today's bond market takes a real expert.

That's where FWDB comes in… this actively managed ETF seeks to outperform the price and yield of its benchmark, the Barclays Capital Aggregate Bond Index.

FWDB invests in at least 12 distinct global bond classes that cover the entire global investable bond universe. The Portfolio Manager constructs FWDB's portfolio using a weighted allocation system based on historic yield curve analysis and a mean reversion strategy.

In other words, FWDB gives you the power of a experienced bond manager at a faction of the cost this type of expertise usually costs.

That's the type of expertise your fixed income investments will need in a rising interest rate environment and one that every income investor will love.

Now for our final trade idea…

ETF Trade #3: Resurgence Of Small-Cap Stocks

"We believe this underperformance by small cap stocks [in 2014] presents a buying opportunity."

-Zacks Investment Research | September 2014

Small-cap stocks vastly underperformed their large-cap brethren last year.

I've been looking into why small-cap stocks have been underperforming relative to large-cap stocks and there are lots of opinions on the subject.

Some point to the fact that small-caps are more expensive based on earnings per share. Others say small-caps are just more volatile than large caps.

And those can certainly play a role in their performance. But the reason I see as the biggest driver of the underperformance of small-cap stocks relative to large-cap stocks is stock buybacks and M&A activity.

Simply put, large companies have more money and power to engineer per share earnings growth than small companies.

Large-cap stocks have been aggressively buying back their own stock. And they're using the ultra-cheap corporate debt to acquire companies that are accretive to per share earnings.

Here's the thing…

These stock buybacks and M&A deals that help boost large cap earnings today will likely come back to bite them down the road.

Don't forget, that the money they're spending on these buybacks could be spent on building the foundation for future revenue and earnings growth.

But they're not building anything…

They're piling on cheap debt and driving earnings per share by reducing the number of shares. And while that shows up as 'growth' it's not the same thing as growing the amount of money they make.

Here's the interesting part…

The fact that small cap companies don't have the pile of cash or access to ultra-cheap credit like the really big companies could work out in their favor.

Right now, small cap companies are being punished because they can't grow earnings per share as fast as large cap stocks. And the reason they can't is because they can't buy back their own stock at the same rate as these much larger companies.

The thing small cap companies are doing is investing in their future. They're building their asset base and doing the things that real earnings growth depends on.

Here's the upshot…

Small-cap stocks aren't likely to be out of favor in 2015. In fact, among all US stocks they represent the best opportunity to capture big returns.

The ETF I like best to profit from the resurgence of small-cap stocks is the Vanguard Russell 2000 Growth Index ETF (VTWG). This ETF provides exposure to a basket of 1,187 small-cap growth stocks.

VTWG is one ETF every investor that's looking for growth should own in 2015.

9 ETFs To SELL Now!

So, we've talked about three ETFs we believe should lead the markets higher in 2015.

But sometimes it's not about which investments you make that make you a successful investor. It's often the bad investment you **don't** make that has the biggest impact on your investing success.

And there are lots of ETFs you shouldn't own… not because of any macroeconomic reason, trend, story, or anything like that.

I'm talking about avoiding ETFs at risk of being closed down.

You see, ETF providers take a big gamble every time they launch a new ETF. Until there's $20 to $100 million in assets in the ETF it's not profitable for them (depending on the fee structure).

If an ETF doesn't catch on within the first 6 months to a year there's a good chance that the ETF will be closed down.

And you don't want to be stuck in a fund that closes. You will get your money back… but you'll take a tax hit and your money could be tied up for a period of time while the ETF is liquidated.

You're better off just avoiding these 9 ETFs at risk of being shut down in 2015.

1. Columbia Select Large Cap Growth (RWG)
2. Columbia Select Large Cap Value (GVT)
3. Credit Suisse Long/Short Liquid ETN (CSLS)
4. CurrencyShares Singapore Dollar ETF (FXSG)
5. Deutsche x-trackers MSCI Mexico Hedged Equity (DBMX)
6. Elements MLCX Biofuels ETN (FUE)
7. First Trust Australia AlphaDEX (FAUS)
8. iPath DJ-UBS Lead ETN (LD)
9. PowerShares China A-Share (CHNA)

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 India's economic growth, generate a monthly income with an actively managed fixed income ETF, or profit from the resurgence of small-cap stocks.

Remember this…

"The first step toward success is taken when you refuse to be a captive of the environment in which you first find yourself."

–Mark Caine

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

Best of luck in 2015, I wish you success in all of your endeavors.

Sincerely,

Corey Williams

Senior ETF Strategist
ETF Trading Research

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