The proliferation of exchange-traded funds (ETFs) has provided advisers with very specific tools to target, evaluate, and position investments to model suitable portfolios. The narrow focus of these funds has several benefits. First and foremost, they reduce the problem of style drift. ETFs, through their low cost, also allow the investor to minimize management and other fund fees. The broad ownership of securities throughout the ETF strategy assures investors that the ETF will capture group performance. Newer commodity-based ETFs, along with other commodity-related products, are coming to market and giving investors direct participation in basic metals and other commodities.

Fortunately for the resourceful adviser, a growing online infrastructure of supporting information makes essential facts about each investment vehicle easily available. Generally, a good site addresses structure, costs, tax issues, portfolio composition, etc., and it’s objective, accurate, and easy-to-use.

No comprehensive review or critical comparison based on software features has been undertaken to lead one to these Web sites, but I found these sites useful, and you may, too. But be aware that, because Web sites are ever-changing, superior alternatives may be missing from this article and today’s best sites might be inferior tomorrow.

The narrow focus of these funds has several benefits. First and foremost, they reduce the problem of style drift. ETFs, through their low cost, also allow the investor to minimize management and other fund fees.

Who Issues Commodity ETFs?
The first commodity ETF was introduced in February 2006. The Deutsche Bank Commodity Index (DBC) tracks the Deutsche Bank Liquid Commodity Index. These include only six commodities: sweet light crude, heating oil, aluminum, gold, wheat, and corn. At 0.95 percent the fees are a bit higher than fees for most ETFs. DBC is not as diversified or robust as the more widely followed Dow Jones AIG Commodity Index (DJAIG) or the Goldman Sachs Commodity Index (GSCI). Since February 2006, many more commodities-based ETFs are coming on stream. Transparency and competition have led Deutsche Bank to reduce fees.

The total ETF market has a capitalization of about $500 billion. The leading issuers are Barclays Global Investors (iShares), State Street Global Advisers (StreetTracks), Vanguard Group (VIPERs), and PowerShares. Brief descriptions of these issuers follow.

iShares http://www.ishares.com. This site, which caters to individual investors and financial advisers, allows one to research specialty funds. Investors can click on Product Information, then Commodities, then view iShares’ COMEX Gold Trust and a Silver Trust. The iShares site also contains a fund fact sheet about iShares’ real estate ETF. Other materials such as prospectuses, hard copy, and reference material also are available.

StreetTracks http://www.ssgafunds.com/etf/index.jsp. This site includes a listing, prices, and net asset value (NAV) of State Street’s ETFs. The StreetTracks Gold and the SPDR Materials ETF have commodity-type correlations and benefits. One click on the desired fund and you can access current market information. Other options include downloading the prospectus, contacting SSgA, or ordering research materials.

Vanguard Index Participation Equity Receipts (VIPER) http://flagship2.vanguard.com/VGApp/hnw/FundsVIPER?gh_sec=n. Vanguard has set up this Web site to help the individual understand more about ETFs. Select from offerings on the left side of the screen to learn about Vanguard’s ETF offerings. The middle column offers tools to look up details about Vanguard ETFs and to compare Vanguard ETF products with those of other spon-
sors. Like the other sites, further information on the specifics is available. Recently, Vanguard has announced the changing of the VIPERs name for their ETFs.

Powershares http://www.powershares.com. ETFs are the focus of this Web site. (However, Amvescap is acquiring PowerShares, so the focus may change.) The home page offers the opportunity to register and be added to their mailing list in order to receive timely updates. The commodity-type offerings include water resources, energy exploration, and oil and gas portfolios.

Comprehensive Listings and Specific Sector Investments
The above sites generally do a good job of providing you with information about ETF alternatives. Several other sites, however, can aid you as you dig deeper into the details. Transparency is an important element in the selection process, and the information from these sites is timely and accessible.

Morningstar http://www.morningstar.com. Morningstar’s Web site is available to fee-paying subscribers only. It contains plenty of ETF information, as well as lots of open- and closed-end fund information for comparison. Morningstar is known for its objective, thorough review of funds, and this site has options so you can compare other similar investment vehicles. The site features updates on new funds, tools such as “instant X-ray,” which provides total exposure of individual securities, and access to prospectuses, fund fact sheets, holdings, etc. The ETF screener is located at http://screen.morningstar.com/ETFScreener/Select or.html?pgid=wwhome2b12.

NASDAQ http://quotes.nasdaq.com/asp/investmentproducts.asp. NASDAQ has an ETF toolbar that also tracks closed-end funds. This Web site provides several screening functions to list the greatest discounts. Links to prospectuses and more information are available.

Seeking Alpha Network http://etf.seekingalpha.com. This site is dedicated to the issues and tracking of ETFs and includes closed-end funds. The toolbar highlights sector ETFs, specialty ETFs, and asset allocation with ETFs. It also contains articles on performance of related funds, news on the underlying company or resource investments, links to analysts, and newsletters on the asset class. Updates on IPOs are available, too.

Nuveen ETF Connect http://www.etfconnect.com. This site features information about ETFs and closed-end funds and offers intraday trading information, fund information, sorting and search tools, and a valuable educational center. As you navigate the site, you will find a toolbar immediately at the top that easily directs you.


Others Resources
The Wall Street Journal has a daily column, “Mutual Funds,” in section C that highlights mutual fund issues and frequently cites new ETF products. The column frequently addresses specific alternatives and why one may be superior to another. It will tackle the subtle differences between certain funds such as stock weighting, use of leverage to enhance returns, management styles, even ETF size as an issue for liquidity purposes.

Getting on an old-fashioned mailing list also can be helpful. The iShares mailing list, for example, diligently sends updates on their new offerings as they are being created. A valuable piece of each mailing is a laminated update of their ETFs and the specific asset allocation pieces they address.

iShares recently published a brochure titled “Resources for the Investment Professional” that includes an abbreviated reference guide to a sweeping combination of articles. The listing includes where you can find and order materials, either through the Web site or by phone. The guide covers the following:

• articles and reprints about ETFs, strategies, and indexing
• materials for financial professionals
• newsletters for both advisers and individuals
• presentations on constructing index portfolios and specific iShares funds
• suggested client materials on iShares products
• Web reports for tracking monthly performance
• Web tools that include an allocation proposal tool and a correlation calculator
• white papers on issues, strategies, and opportunities in ETFs

Though the iShares platform addresses the entire ETF spectrum, a wealth of information about commodity- and correlation-related opportunities is available. You will find the means to attain different types of commodity-type exposure. Under the iShares umbrella there are funds such as the Comex Gold Trust (IAU), Silver Trust (SLV), U.S. Real Estate (IYR), Global Energy (IXC), Basic Materials (IYM), and MSCI South Africa (EZA).

The iPath Exchange-Traded Notes (ETN) Web site (http://www.ipathetn.com) will alert you to webinars on the latest exchange-traded innovations. These live conference calls cover how to get representation in commodities. Company representatives are available for questions regarding the basics on commodities investing, the alternatives, and
like the old product-cycle charts, in that investment class. However, hold it as our proxy for participation in the best-managed open-ended fund and ETFs the Morningstar ETF Way,” and “The ETF Numbers That Matter and Why.”

Technical Analysis
Almost all of the sources listed above offer charts since origination and/or daily charts along with respective moving averages. Dorsey Wright & Associates (http://www.dorseywright.com) also offers a free 21-day trial with different levels of pricing and service. Dorsey Wright has broadened its technical work and regularly includes point and figure charts, analysis, and comments on the state of most commodities and currencies that have specific exposure to the noncorrelated markets.

Personalizing to Meet Your Needs
Now you can personalize the receipt of up-to-date information on ETFs by accessing Internet news. Many years ago only Herzfeld provided a service for tracking, evaluating, and timing the closed-end fund area of this investment strategy. Now you can get E-mails from almost all these sites regarding new developments, fund updates, prices, etc.
- Save and bookmark key Web sites for their search capabilities.
- Create an E-mail alert system by subscribing to updates on certain products.
- Keep abreast of major changes and white papers through independent sites and reading those periodicals that pay attention to these particular developments.

How to Track Product Offerings
Not so long ago we would select the best-managed open-ended fund and hold it as our proxy for participation in that investment class. However, like the old product-cycle charts, new alternatives spring up and others become less attractive. One could say we are in the third wave of these offerings with the development of structured notes.

A commodity structured note is a relatively shorter-term debt security. The interest payments are based on a formula set to the fluctuation of a commodity, index, or currency. An infinite number of variations exist, but in general these notes offer the opportunity to partake in a directional move in one particular or basket of commodities. Exchange traded notes (ETNs) are one of these newer products with features and benefits that may be useful for some investors. Much uncertainty still surrounds taxes regarding these various instruments. Tax advantages could disappear with a negative ruling from the Internal Revenue Service.

iPath—Barclay’s Exchange Traded Notes provide a good exposure to commodities, especially in a taxable account. In fact, you could choose one of two different commodity indexes: the GSCI (iPath GSCI Total Return Index—NYSE symbol GSP) or the DJAIG (iPath Dow Jones-AIG Commodity Index Total Return—NYSE symbol DJP). ETNs help control the realization of capital gains, which result only upon sale. The fees are low (0.75 percent). Net return (determined by prospectus) is the return of the index minus the fixed fee. However, one key negative, unlike some other instruments, is that the investor is taking a credit risk. An added task will be monitoring the underlying issuer’s credit rating.

Barclays claims that their ETNs should be taxed as prepaid contracts that track an index. Their strategy is to not take physical possession of the commodities. Instead, the ETFs roll the underlying futures contracts, moving into longer-dated contracts and thus have continued participation in the underlying commodity’s fluctuation. Technically that would realize gains or losses only when the ETN itself is sold. If this is the case, they would be more tax-efficient than other commodity ETFs.

Food for Thought for Alternative Strategies
Many new, and novel, noncorrelated investments are surfacing. One example is the Eurocurrency Trust, which owns euros in an interest-earning account and protects against dollar weakness. Management fees are approximately a full percent less than some similar products. Like commodities, this should offer a haven from dollar weakness that
mirrors the potential performance of many commodities.

Another example of an investment alternative with similar type correlations is the iShares MSCI South Africa Index Fund (EZA). This South African ETF is highly correlated to the basic materials sector and also to the precious metals sector based on the investments held in the ETF.

In conclusion, financial advisers now can offer very specific representation in an asset class and more importantly, in commodity and other noncorrelated investments. While there are many similarities among Web sites, some presentations may be more useful than others. The tools on many sites are expanding and truly provide the wide-ranging information you need to develop a suitable financial solution. These ETFs and ETNs are a superb way of participating in commodity movements. Investment options, their respective taxability, and underlying commodity index representations are growing rapidly. Building your reference sources can keep you abreast of the investment landscape. Bookmark these sites and add others that meet the specific needs of your practice. As a best practices tactic, set aside some time each weekend to update, monitor, and keep informed.

Nick Paterakos, CIMA®, is a senior vice president for UBS Financial Services in Chicago, IL. He earned a B.S. in accounting and finance and an M.B.A. in finance at DePaul University. Contact him at nick.paterakos@ubs.com.

Endnotes
