Best Performing ETFs

Ten Best New ETFs Of 2011

By: Eric Dutram
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HDGE | AGOL | FONE | GGGG | SDIV | FWDB | NKY | EWJ | GDX | ALD | EU

2011 was a record year for the ETF industry in a number of ways. Assets under management cracked the important $1 trillion level for the first time, cementing the product as a staple in the investing world. The industry also saw a host of new launches as well, as more than 300 funds made their debut over the course of the year giving investors fresh options in everything from bonds and U.S. equities, to emerging market debt and international markets.

Yet, while many of these funds look to be quality products—and some admittedly not so much—a few definitely stood out as truly landmark launches in the industry. These products either hit new niches or give exposure to previously untouchable asset classes, greatly helping investors to put their assets in the desired spots. Below, we highlight ten of our favorites from this group which could be worth a closer look by all in 2012, no matter what happens with the broad economy:

AdvisorShares Active Bear ETF (HDGE)

This ETF seeks to give investors exposure to a basket of equities that have been shorted, acting as a both a market hedge and a potential outperformer when markets are sinking. However, it should be noted that the fund doesn't just randomly short a bunch of stocks; instead it seeks to find a group of companies that have low earnings quality or aggressive accounting practices and short a basket that have those characteristics. In total, the fund shorts between 20 and 50 equities across a variety of sectors creating a nice hedge against adverse market movements. Unfortunately, HDGE is one of the more expensive ETFs on the market today, charging close to 3.3% a year in fees thanks to a hefty 1.44% charge for short interest expense. It didn't seem to matter for the fund too much though in terms of overall return, as the product has greatly outperformed broad markets over the past six months (read The Active Bear ETF Under The Microscope).

ETF Securities Physical Asian Gold Shares (AGOL)

Gold investing has been extremely popular with ETF investors as commodity-backed funds represent a very liquid and cheap way to play the markets. Yet, some investors remain concerned that Western governments, in their infinite wisdom, may be prone to gold confiscation in the near future, much like what Americans saw in the 1930's. This situation has caused many investors to consider holding gold outside of the UK and the USA and in other markets. One of the more popular choices is arguably Singapore, the island nation in Southeast Asia (read Top Three Precious Metal Mining ETFs).

Described by some as the Switzerland of the region, Singapore enjoys a high standard of living, transparent government, and great investor protections making it a top choice for investors to store gold. In light of this, ETF Securities, the issuer behind a number of other popular precious metal products, debuted a gold-backed ETF which holds the metal in secure vaults in Singapore. This has proven to be a good choice for those seeking to diversify their gold exposure as the fund has managed to amass over $70 million in assets in less than a year, suggesting that many investors are concerned about the safety of their gold holdings and are open to alternatives.

First Trust NASDAQ CEA Smartphone Index Fund (FONE)

If one sector of the economy has been a growth area over the past few years, it has undoubtedly been the smartphone space. This corner of the market has seen rapid growth, wide spread adoption and continues to buck the trend of weak consumer spending. Thanks to these events, First Trust decided to put out an ETF targeting the space, FONE. The product seeks to give broad exposure to the industry across three key sectors; handsets, software applications & hardware components, and network providers. The fund holds 70 securities in total and could be an ideal play for investors looking for concentrated exposure to this slice of the market in 2012 (see Alternative ETF Weighting Methodologies 101).

FactorShares ETFs

While spread trading—the simultaneous buying of one security and the selling of another, related one—has always been popular among short-term traders, the idea hasn't really caught on with ETF providers, until recently. The new ETF provider, FactorShares, recently debuted a lineup of five products which look to give investors leveraged exposure to popular spreads including S&P 500 Bull/USD Bear, Oil Bull/S&P 500 Bear just to name a few. While the products still aren't the most popular, trading volumes are often pretty low for the funds, they could be a unique way for investors to trade a number of markets cheaply and quickly in a way that other ETFs simply do not provide at this time (read ETFs vs. Mutual Funds).

Global X Pure Gold Miners ETF (GGGG)

GDX, the ultra-popular gold miner ETF from Van Eck, remains the go-to choice for those looking for exposure to gold mining firms in basket form. However, an upstart from Global X, the Pure Gold Miners ETF (GGGG), could offer a potentially better way to play the market than its more established cousin. That is because GGGG only focuses on companies that derive at least 90% of their revenues from gold mining whereas GDX has no such distinction. While this may seem like a small issue, it results in a completely different holdings profile for GGGG when compared to GDX (see Top Three Precious Metal Mining ETFs). This could be a good thing as it could result in a portfolio of securities that is more heavily correlated to the price of gold. After all, when investors buy up gold miners isn't a high correlation to gold prices what they are after in the first place?

iPath Pure Beta Commodity ETNs

While commodities are extremely popular among ETP investors, some are concerned over the impact of contango on long term returns. This effect can often erode value for investors and result in deviations from the spot price when one compares the returns of the underlying to an ETF or ETN over the long term. Thanks to this issue iPath launched a series of 'Pure Beta' ETNs which could help to mitigate this issue for many investors (read Three Best Gold ETFs).

In this method, a much more complex approach is taken to buying commodities as opposed to the traditional method of just buying the next month's futures contract. In the pure beta technique, the front year average price is first calculated and then each contract is ranked on how closely it matches up to this figure. Then, the team filters out low liquidity products and ones that are prone to distortions in order to give a final commodity contract that is deemed most representative of the commodity's return. This could give investors a better way to play the commodity markets and could be the preferred choice for those seeking exposure to this asset class in ETN form.

Global X SuperDividend ETF (SDIV)

If there is one thing that investors are always looking for no matter the economic environment, it is high yielding securities. SDIV, an ETF from Global X launched in June, seeks to give investors a new way to capture these firms, albeit on a global scale. In total, the fund holds 100 securities offering up heavy exposure to companies in the REIT, telecom, and consumer discretionary sectors. Although the fund has performed poorly from a market price perspective, the real selling point of this ETF is its yield which comes in at a robust 9.5% in 30 Day SEC Yield terms. This rate is far higher than many other products, even in the bond space, and is one of the chief reasons that SDIV could be an excellent choice for investors seeking more international equity exposure (see Inside The SuperDividend ETF).

AdvisorShares Madrona Global Bond ETF (FWDB)

While products such as BND and AGG claim to be 'total bond market' funds, they are both heavily concentrated in American Treasury debt, have nothing in junk bonds, and little exposure to foreign securities. In fact, in both of these products, T-Bonds make up more than one-third of the total portfolio. In an effort to rectify this heavy concentration, AdvisorShares and Madrona teamed up to offer their own Global Bond ETF. The fund gives investors truly global exposure allocating to at least 12 diverse sectors at all times including, at time of writing, BABs, convertibles, international TIPS, and emerging market bonds. While the fund is significantly more expensive than BND or AGG, this could be a case of getting what you pay for, suggesting that FWDB could be the better pick for bond ETF investors (read The Best Bond ETF You've Never Heard Of).

Maxis Nikkei 225 Index Fund (NKY)

iShares' MSCI Japan Index Fund (EWJ) has been, and continues to be, the gold standard in the Japan ETF space. The fund has over $5 billion in assets and trades a robust 30 million shares a day ensuring ample liquidity for virtually any investor. All of this is despite not tracking the country's most popular and well known benchmark, the Nikkei 225 index, instead following an index created by MSCI. The Nikkei benchmark, on the other hand, is far better known than its MSCI counterpart as it is the one that is often quoted on investment websites and channels; in many ways, the Nikkei 225 is the DJIA of Japan (read Top Three Currency ETFs).

Unfortunately for U.S. investors, there was no real way to access this benchmark until the recent release of NKY. The fund has several key differences from its iShares counterpart but the most notable is lack of similarities among the two funds' top ten holdings. This is because the Nikkei is price-weighted as opposed to market cap weighted, giving the fund a very different weighting than EWJ. In part due to this, as well as the general popularity of the Nikkei benchmark, NKY has developed a huge following in a short period of time, amassing over $160 million in just about six months of trading.

Regional Bond ETFs

Bond ETF investing has truly gone through a revolution in the past two years as the number of products targeting the space has surged into the hundreds. Beyond the global bonds and the increased segmentation of the U.S. government and corporate bond markets, one innovation that many may have overlooked is the rise of the regional bond ETF. ETNs now exist that target the Treasury bond markets of Japan, Germany, and Italy, while ETFs focus in on the bond markets of countries such as China, Germany, Australia, and Canada, slicing exposure in these key markets in much the same way as the American bond market (read Australia Bond ETF Showdown).

Beyond these country specific products, a few bond ETFs have hit the market that look to give investors a way to play a broad swath of the globe without diving into country specifics. These funds, such as BONO for Latin America, ALD for Asian debt, and EU for European bonds, allow for further segmentation in the bond space and diversification out of U.S. dollars. This could be especially important for those who are seeking more international exposure in their portfolio but already have a fund like AGG or BND. If this is the case, any of the above examples could make for an interesting addition that could not only diversify out of greenbacks, but potentially boost yield as well.