



ROB CARRICK
PERSONAL FINANCE

Culling weak funds will strengthen the ETF herd

The long-expected culling of the weak has begun in the world of exchange-traded funds.

Eleven dud listed in the U.S. market are being closed and the safest bet on the stock markets right now is that more of these mutual fund alternatives will bite the dust before long.

"We've always thought that the next bear market - and we're probably in one right now - would eliminate a lot of the duplicate funds and the esoteric funds," said Tyler Mordy, director of research at Hahn Investment Stewards & Co.

Bring it on, baby. Closing ETFs addresses the confusing glut of products, while the impact on people who actually own doomed funds is minimal, other than a potential tax hit.

ETFs are stocks that provide a clean, cheap way to buy the returns of hundreds of stock indexes and commodities. The ETF business has expanded at insane levels in the past few

years - Mr. Mordy estimates 40-per-cent annual asset growth over the past seven years - and it's

no surprise that some products just aren't clicking. Just recently, **Claymore Securities** said it would close 11 U.S.-listed ETFs on Feb. 20, including the Claymore/BIR Leaders 50 ETF, the Claymore/Robeco Boston Partners Large-Cap Value ETF, the Claymore/Clear Global Vaccine Index ETF and the KSF Claymore/KLD Sudan Free Large-Cap Core ETF.

Speculation about which ETFs will be terminated next has already begun. In a recent posting, Canadian Business magazine blogger Larry MacDonald noted the low trading volumes of some TSX-listed Claymore products and speculated about their possible demise. The posting drew a denial in which Som Seif, head of Claymore's Canadian operation, said his firm has no intention of cancelling any of its funds at this time.

Vulnerable Claymore names here in Canada would arguably include the firm's adviser series funds, which are regular ETFs with larded-in service fees for investment advisers who sell them. The management expense ratio for Claymore's Canadian Fundamental Index ETF is 0.65 per cent; the MER of the adviser version is 1.4 per cent, which includes a continuing service fee of 0.75 per cent.

If you judge by the thin trading volumes generated by Claymore's adviser-series funds, they're marginal players. However, Mr. Seif said there are some mitigating factors:

1. These ETFs are bought on a buy-and-hold basis by advisers and not traded much. So looking at daily volumes may not provide an exact picture of how much use they're getting;

2. Claymore finds that the adviser-series funds are a useful way to open a discussion with investment professionals who only sell mutual funds. The firm can explain how adviser funds provide continuing compensation



The Claymore/Clear Global Vaccine Index ETF is one of 11 U.S.-listed funds Claymore Securities is closing. JACK DEMPSEY/THE ASSOCIATED PRESS

Who's who in the Canadian ETF market

Company	Number of funds	Total assets (\$billion)	% of assets in retail hands
Barclays Global Investors (iShares)	28*	\$15.40	50%
Claymore Investments	35†	\$0.80	‡‡
Horizons BetaPro	12‡	\$0.80	45%

*sold under the iShares name; †includes Advisor series funds; ‡includes six funds, with bull and bear versions of each; ‡‡exact figures unavailable, but most assets are in retail hands

THE GLOBE AND MAIL

ETFs are stocks that provide a clean, cheap way to buy the returns of hundreds of stock indexes and commodities.

An easier way to trade options

Investing in options is far too complicated for most of us. Typically, we accept ignorance, turn a blind eye and let the hardcore traders deal with them.

But there is now an elementary way for investors to get into the intimidating options market - and the timing couldn't be better. Not only does the recently launched PowerShares S&P 500 BuyWrite Portfolio (PBP-NYSE) exchange-traded fund play options without forcing the investor to learn the nuances between "calls"

and "puts," it also promises to be a decent shield against volatility. In other words, it could be exactly the kind of thing you'd want a bit of in your portfolio during these roller-coaster times.

The two-month-old ETF is still in its infant stages - its market capitalization is still less than \$3-million (U.S.) - and it has barely made a blip among investment experts, even ETF blogs. However, the BuyWrite ETF is based on an intriguing concept that merits attention, and it offers expo-

sure to the options market in a way that few regular investors would ever do themselves.

The BuyWrite ETF is based on one of the most basic options strategy called, not surprisingly, buy-write. The investor buys stocks and "writes" (insider jargon for "sells") call options against the stock. To find out more about how it works, see the full article on Globe Investor Magazine Online (globeinvestor.com/magazine).

») Jason Chow

(a "trailing commission" in fund-speak) in the same way as mutual funds do.

"The adviser series represents a continued opportunity to allow for the use of ETFs on a broader scale across different accounts," Mr. Seif said.

Trading volumes are one measure of a fund's popularity, while another is asset level. ETFs are introduced with a set amount of seed capital and new units are issued according to demand from investors. The adviser version of the Canadian Fundamental Index ETF has a total of about \$23-million in assets, a little more than the regular version of the fund.

These are modest asset levels compared with the big Canadian equity ETFs run by Claymore's main competitor, the iShares family run by Barclays Global Investors, but they're huge in comparison to, say, the Claymore/BIR Leaders 50 ETF, which has about \$2.2-million (U.S.), or the Claymore/Robeco Boston Partners Large-Cap Value ETF, with about \$2.1-million. "These things are not picking up a lot of assets, so therefore we're in a position where we're not going to keep them on board," Mr. Seif said of these and other U.S.

Claymore funds that are to be terminated.

Here in Canada, ETF closings have happened before. State Street Global Investors axed its SSgA Dow Jones Canada Titans 40 Index Participation Fund in 2002, and Toronto-Dominion Bank's fund arm terminated four ETFs in 2006.

Shutting an ETF is no big deal for investors. The worst outcome is that you have an unplanned taxable capital gain, or that you're forced out of an investment that has fallen in price but has rebound potential that will never be realized. You can sell doomed ETFs until their stop-trading date and, if you do nothing, you should get the net asset value per share in cash after liquidation. ETF prices reflect the value of the stocks in their underlying indexes, so lame-duck status should not send a fund into a tailspin before it's delisted.

Want to avoid ETF duds altogether? Buy only those funds that track widely recognized indexes, have substantial assets and trade at least a few thousand shares on average a day. Expect these funds to become easier to find as the ETF duds are swept away.