

Implementing a Low Cost Investment Strategy Using ETFs

Orange County Chapter of AAI

August 20, 2011

Positive Innovation

- Greater flexibility
- Greater versatility and flexibility
- LIQUIDITY
- Greater control of tax liability
- Predictability

Cost Comparison

	ETFs	Mutual Funds
Large-Cap Stock	0.09%	1.00%
Europe Stock	0.40%	1.69%
LT Corporate Bonds	0.10%	0.89%
EM Stock	0.50%	1.86%
Treasury Bonds	0.23%	0.98%

ETF Selection

- What does it ACTUALLY track?
- Volume
- Costs
- Spreads
- Premium/Discount

Asset Allocations

	Aggressive	Moderate	Conservative
Large-Cap	45%	30%	20%
Small-Cap	20%	10%	5%
Foreign	20%	15%	10%
Bonds	10%	40%	60%
Alternatives	5%	5%	5%

Global Outlook

“The time to buy is when there’s blood in the streets, even if the blood is your own.”

-Baron Rothschild

Businesses Aren't Panicing

UNITED STATES BUSINESS CONFIDENCE



source: TradingEconomics.com; Institute for Supply Management

Consumers Fairly Sanguine

UNITED STATES CONSUMER CONFIDENCE



source: TradingEconomics.com; Conference Board

Wheels of Industry Turning

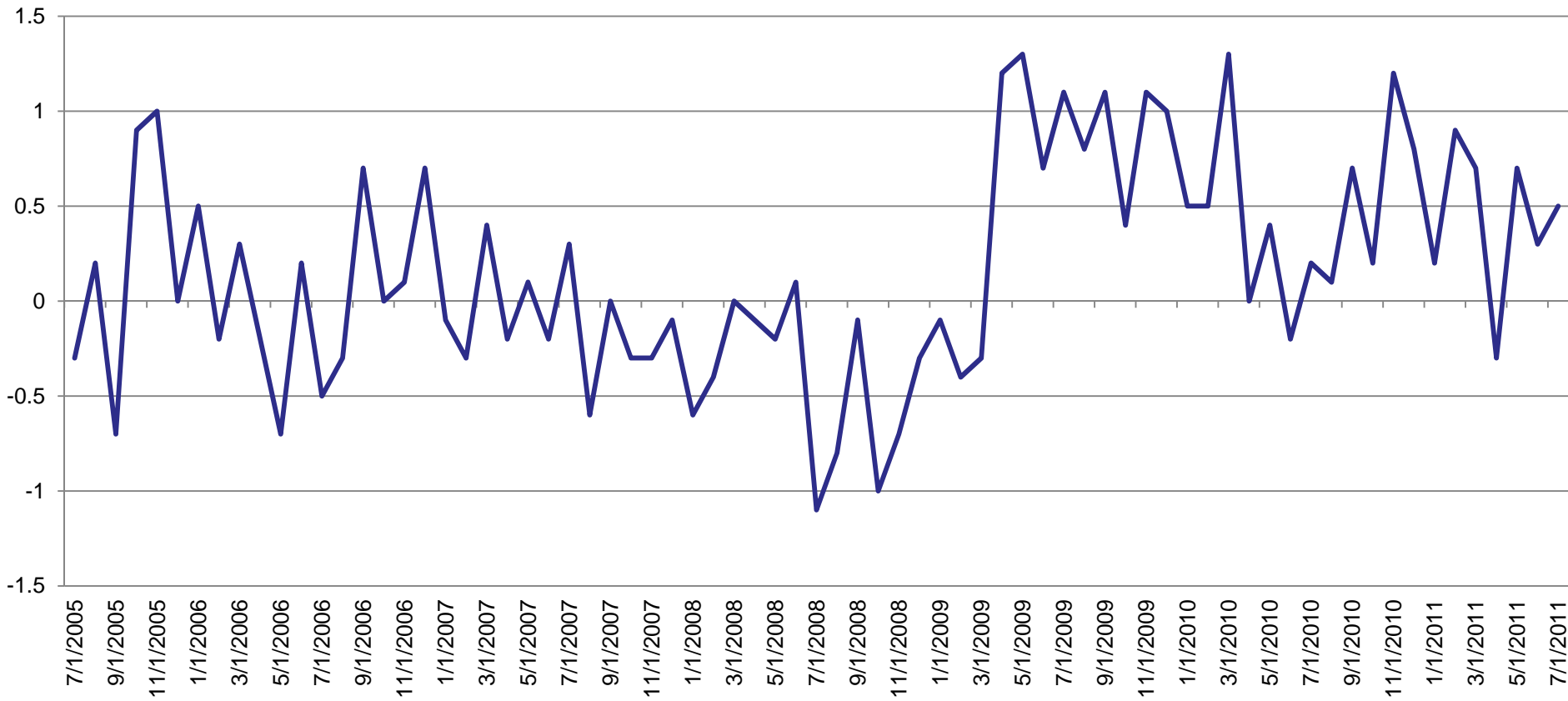
UNITED STATES INDUSTRIAL PRODUCTION



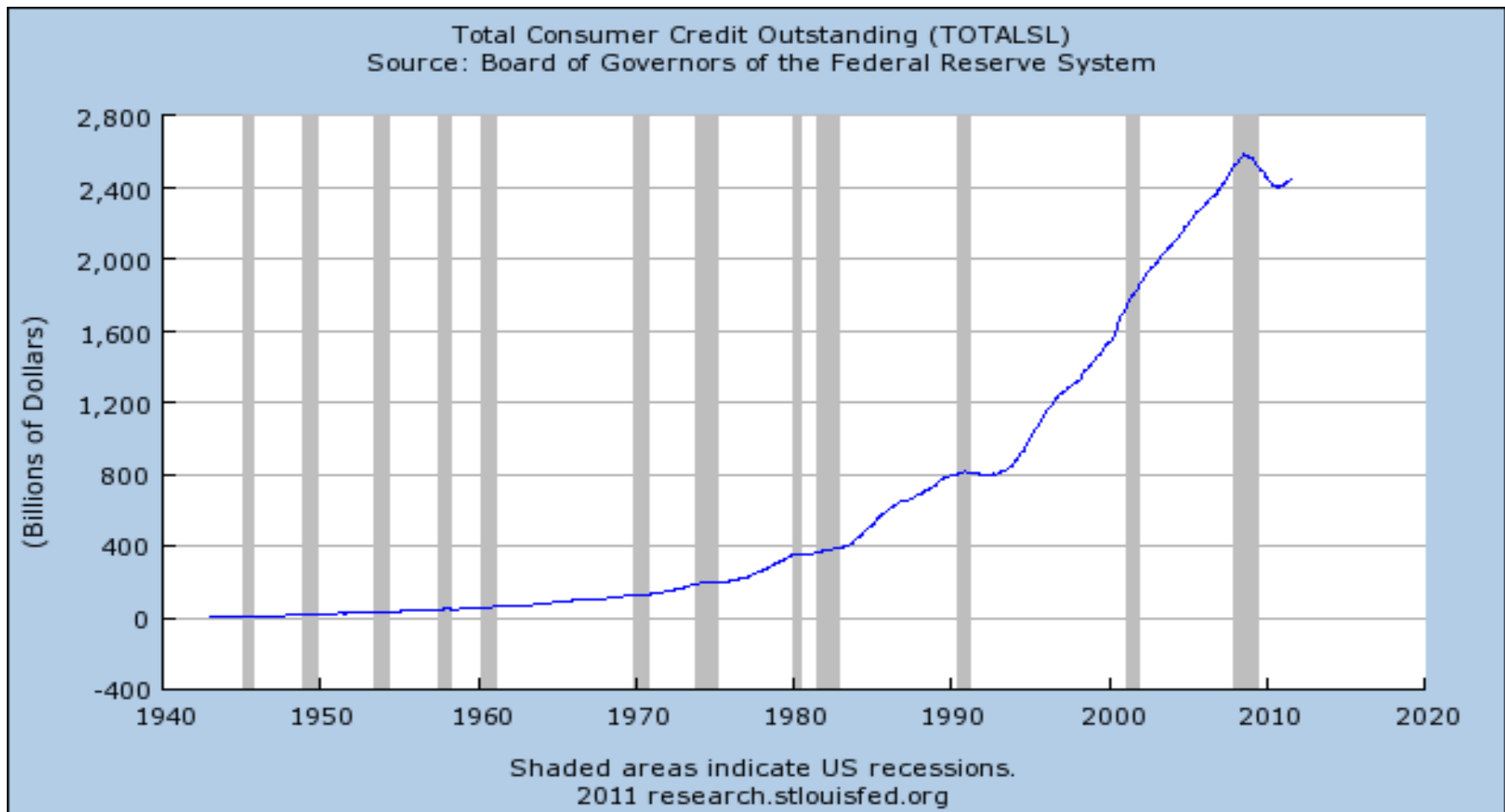
source: TradingEconomics.com; Federal Reserve

Indicators Still Positive

Leading Economic Indicators



Credit Headwinds



A Few of My Favorite Plays

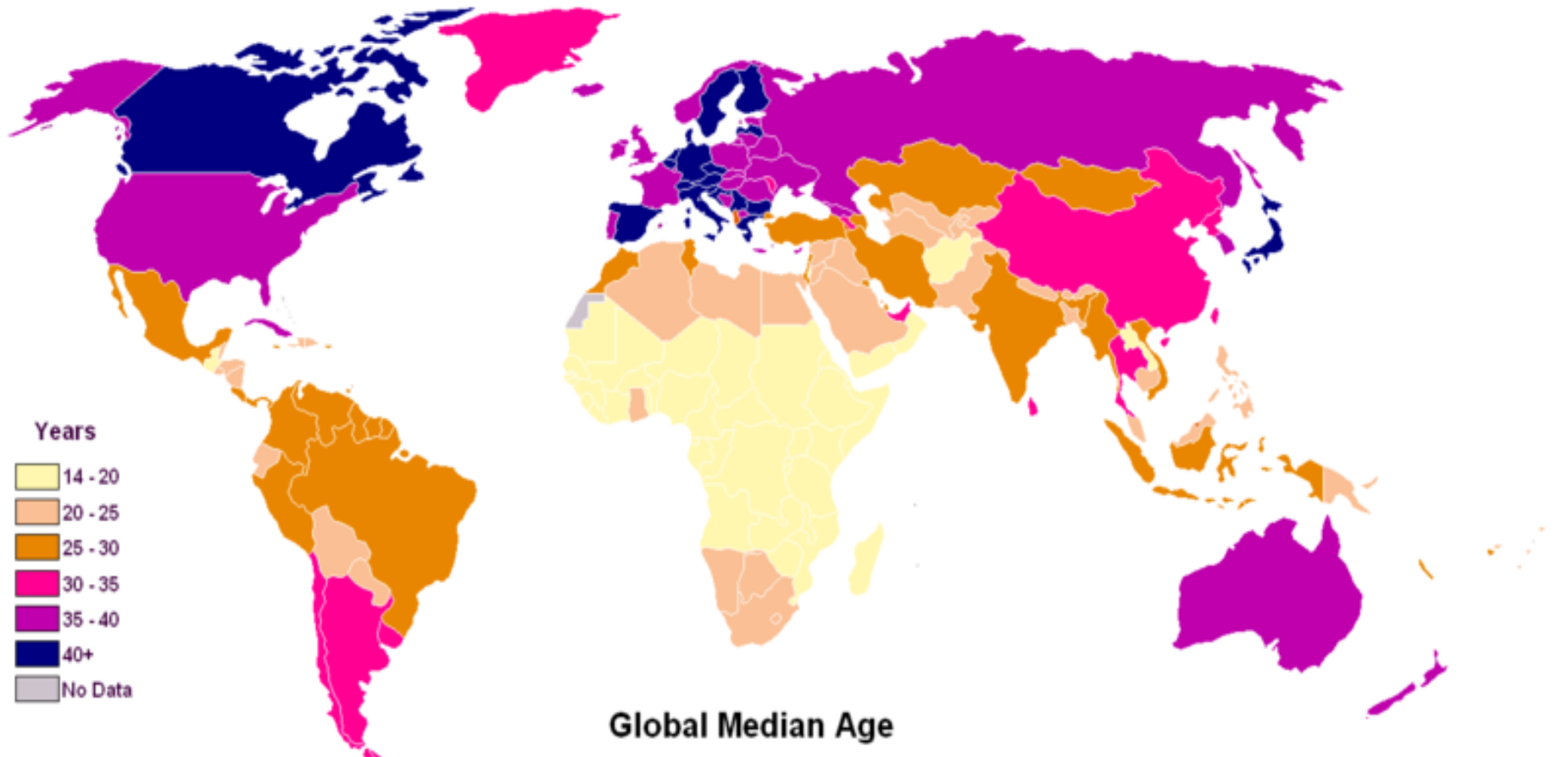
The New C-Note: Or, the Yuan

Why Make it if You Can't Spend It?

- While conspicuous consumption is still a largely Western phenomenon, growing wealth is encouraging some free spending habits in the Eastern world.
- The Chinese middle class is now larger than the population of the entire US.
- Consumer spending by the global middle class is currently estimated to be \$6.9 trillion annually. By 2020 that number is expected to reach \$20 trillion; twice the current total consumption by the United States.
- While the luxury goods market will always favor imports, the emerging markets consumer is much more likely to purchase locally made goods.
- Consumer products and services companies in the emerging markets generally command >50% local market share.
- While the Western world has been forced to deleverage, the emerging market consumer's high savings rate has cushioned consumption.

The New C-Note: Or, the Yuan

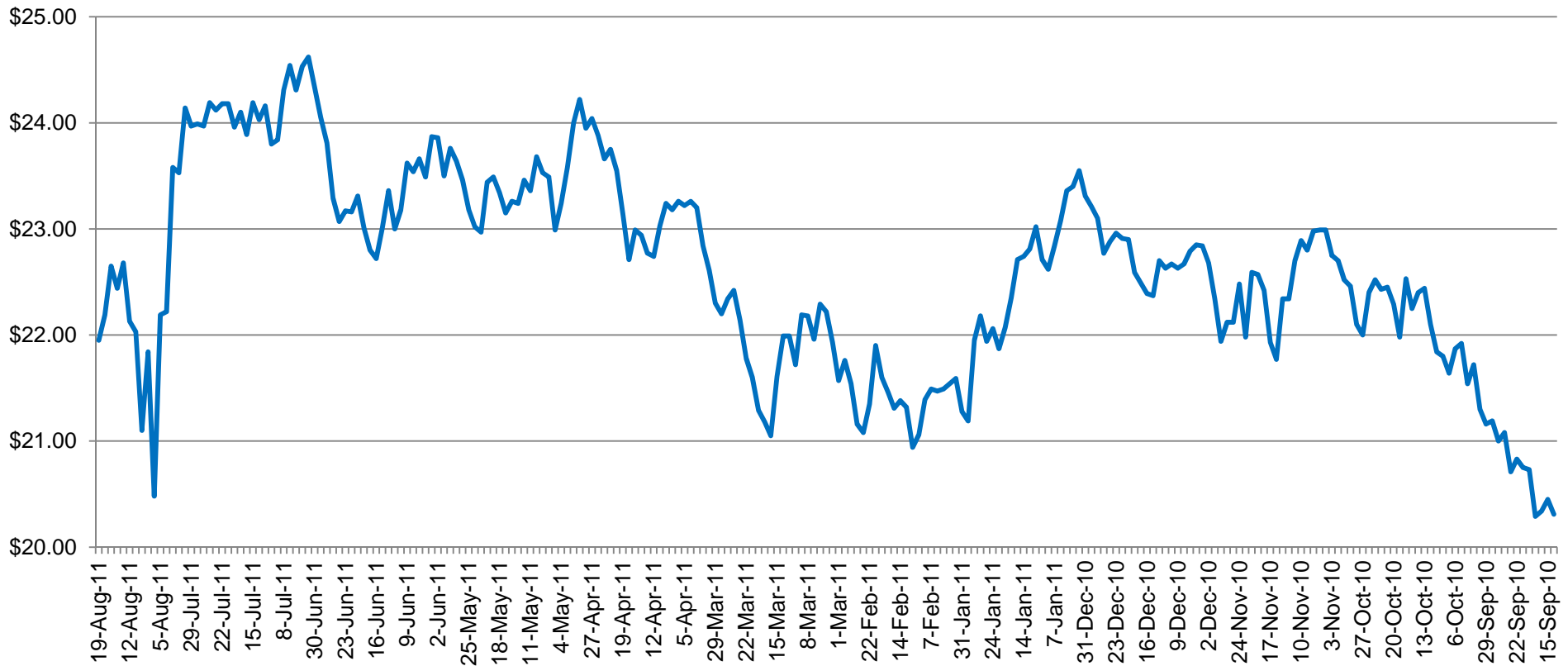
The Young Enjoy High Discretionary Income



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The New C-Note: Or, the Yuan

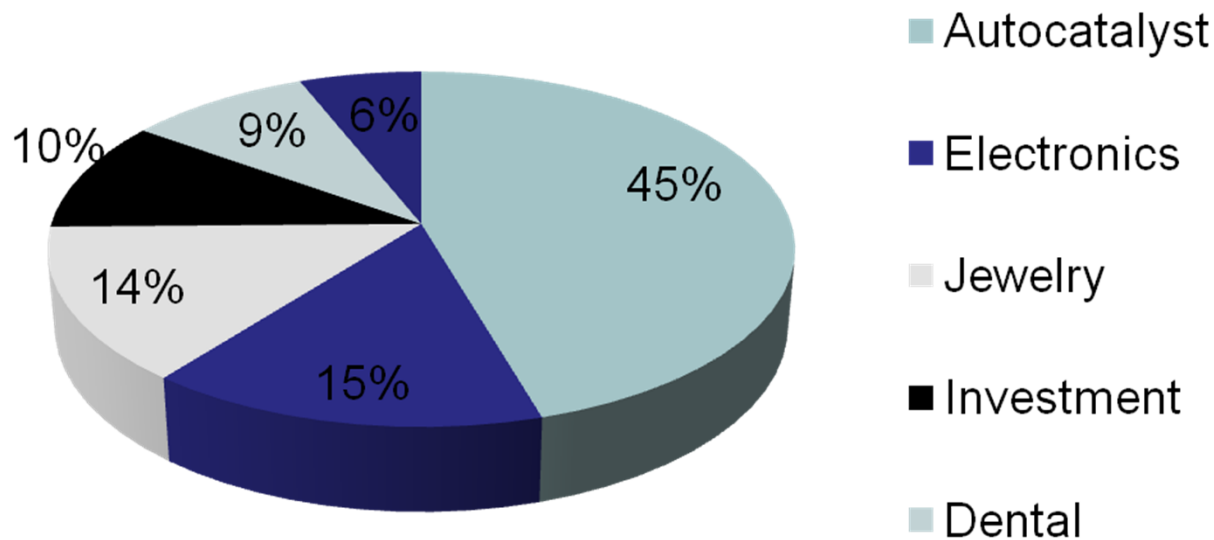
EG Shares Consumer Titians (NYSE: ECON)



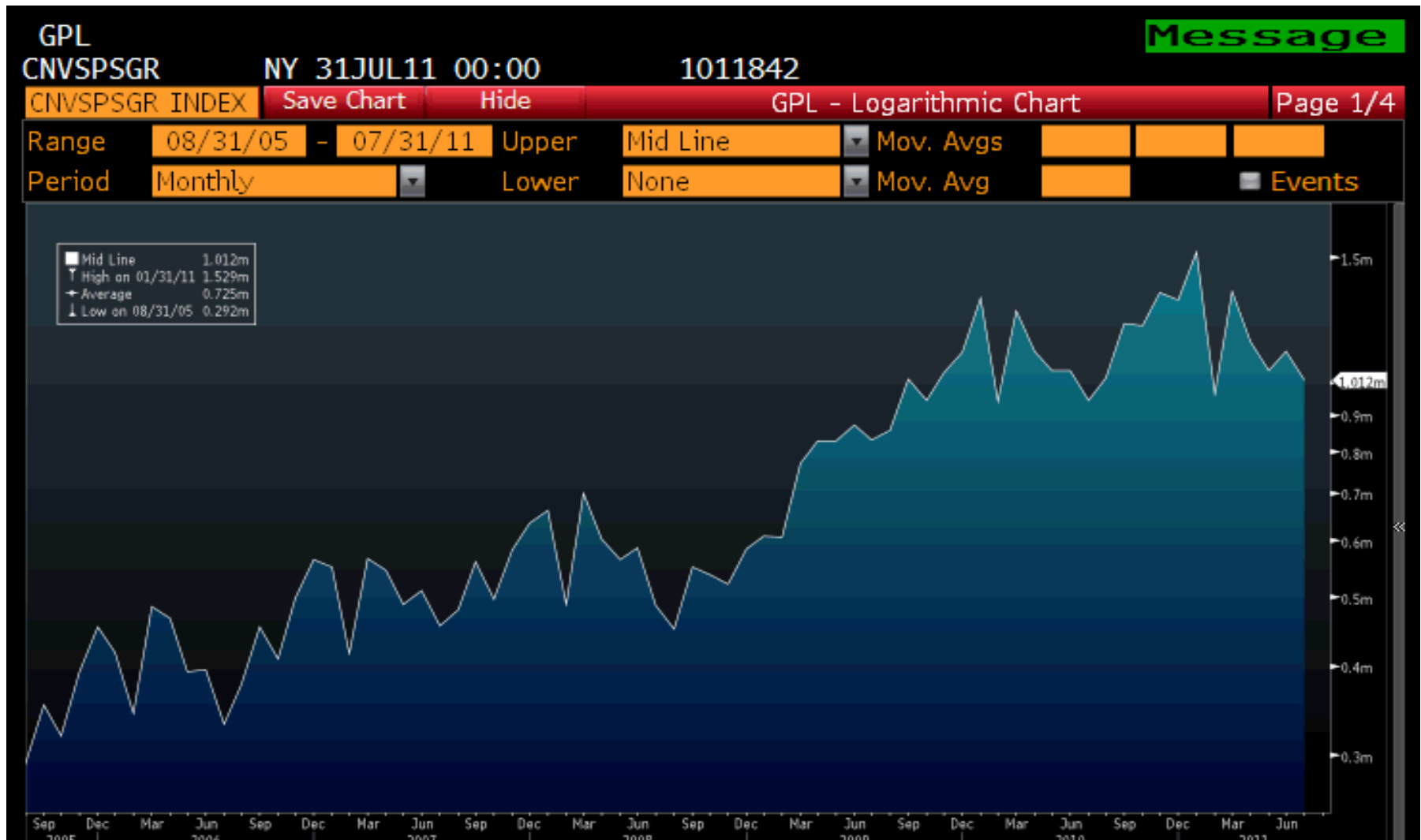
Palladium: The Other White Metal

- Outstanding catalytic properties
- Highly resistant to wear and tarnishing
- Excellent high temperature characteristics
- Stable electrical properties

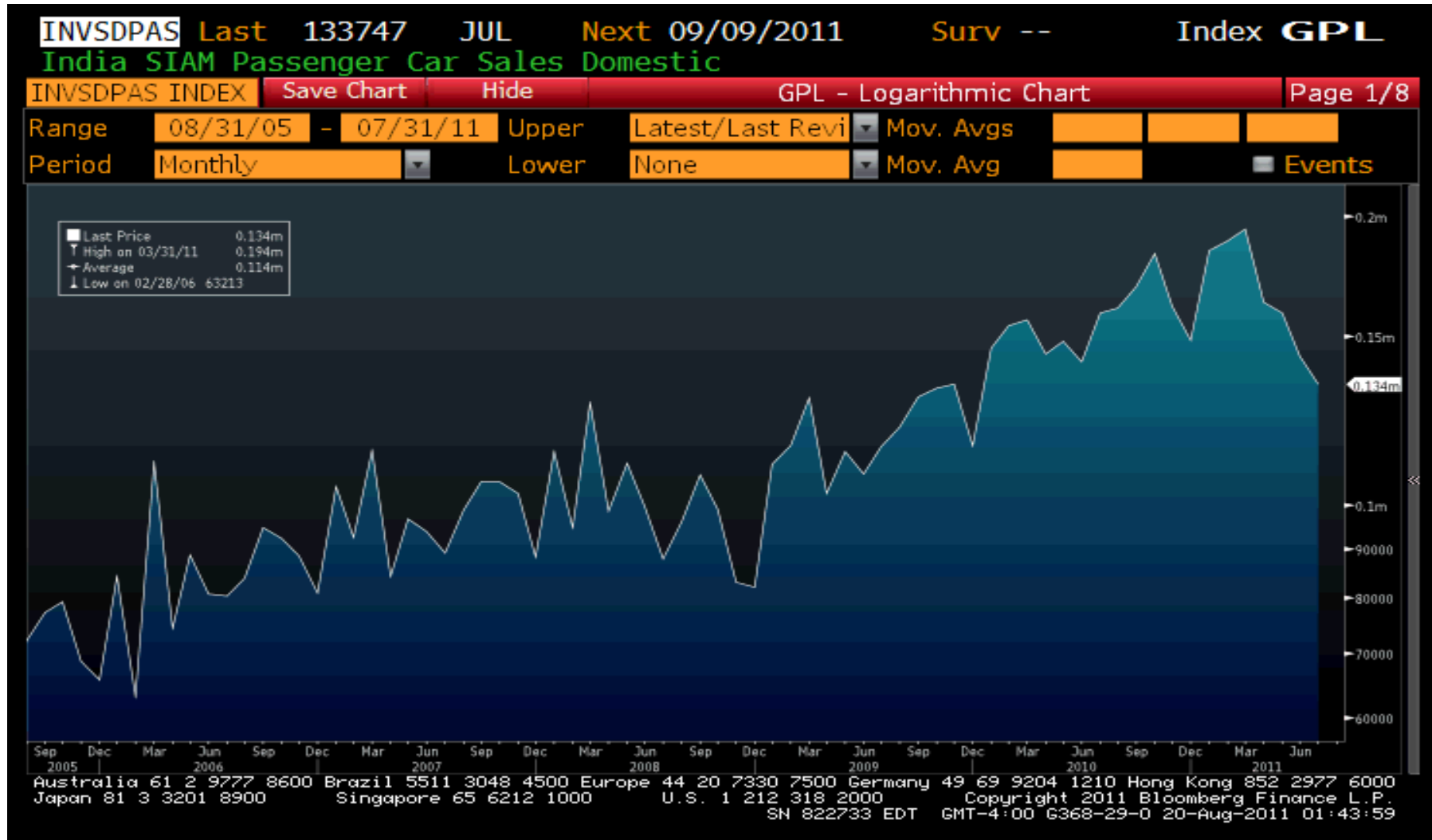
Palladium Demand in 2010



Chinese Auto Sales

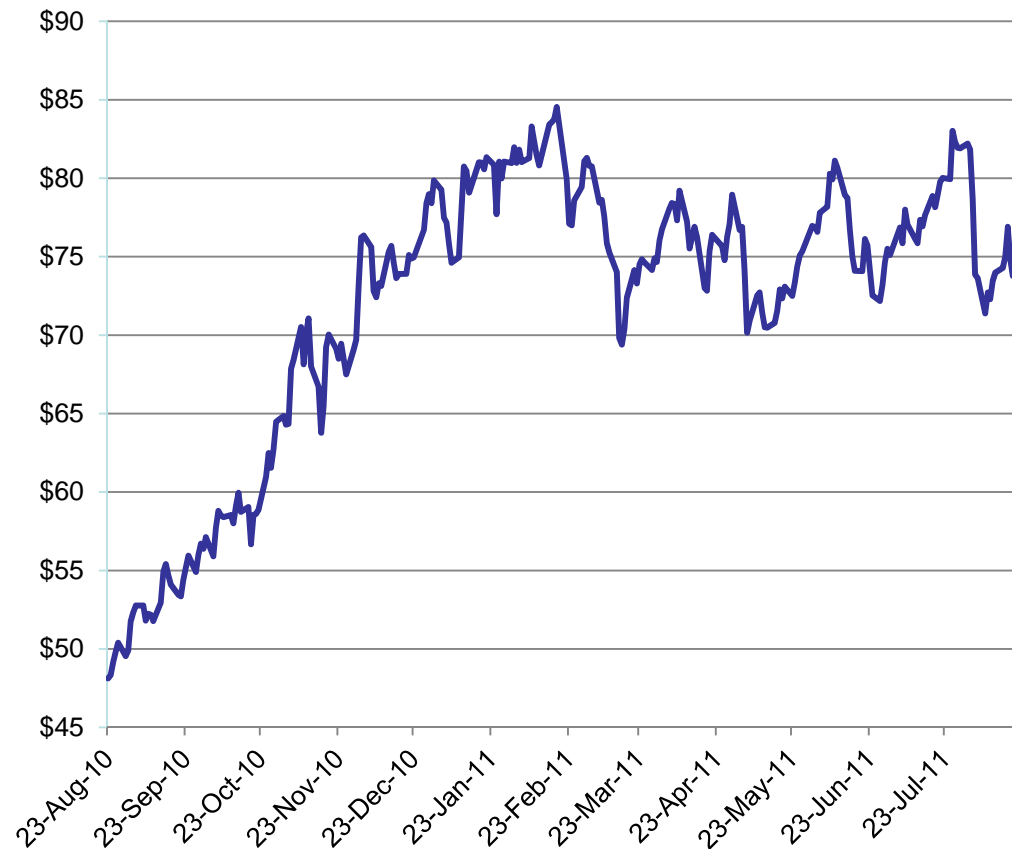


Indian Auto Sales



ETFs Physical Palladium (NYSE: PALL)

- Backed by physical palladium
- Reasonable expenses at 0.60%
- Physical metal backing means little tracking error

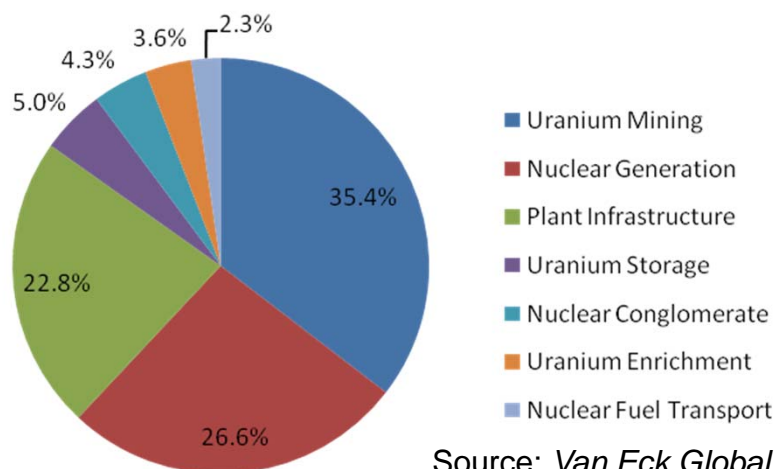
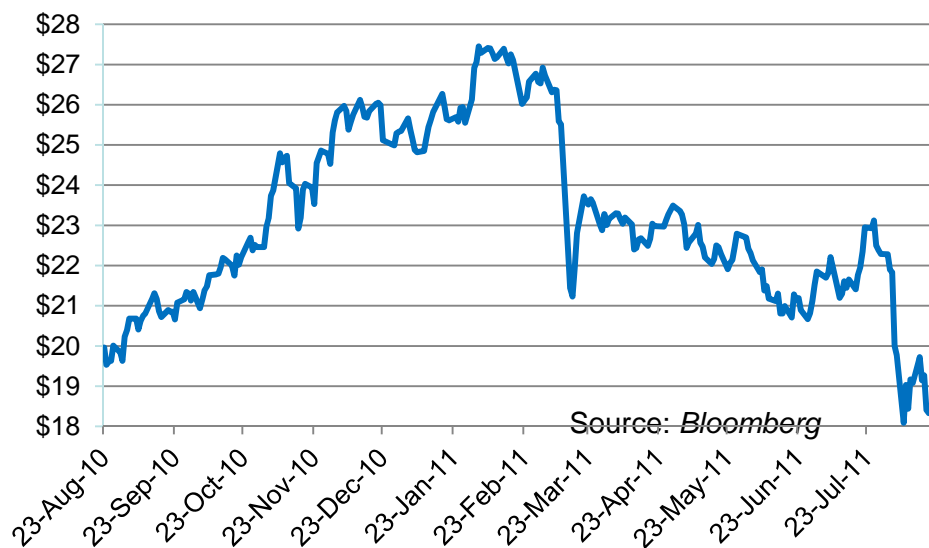


The Nuclear Option

- While environmentalists may believe global agreements are too lenient, emissions targets are in reality actually quite ambitious
- Power generation needs must be addressed
- There are currently 438 commercial reactors supplying 16% of global electricity
- US proposes significant support for nuclear power
- Emerging economies will increasingly rely on nuclear power

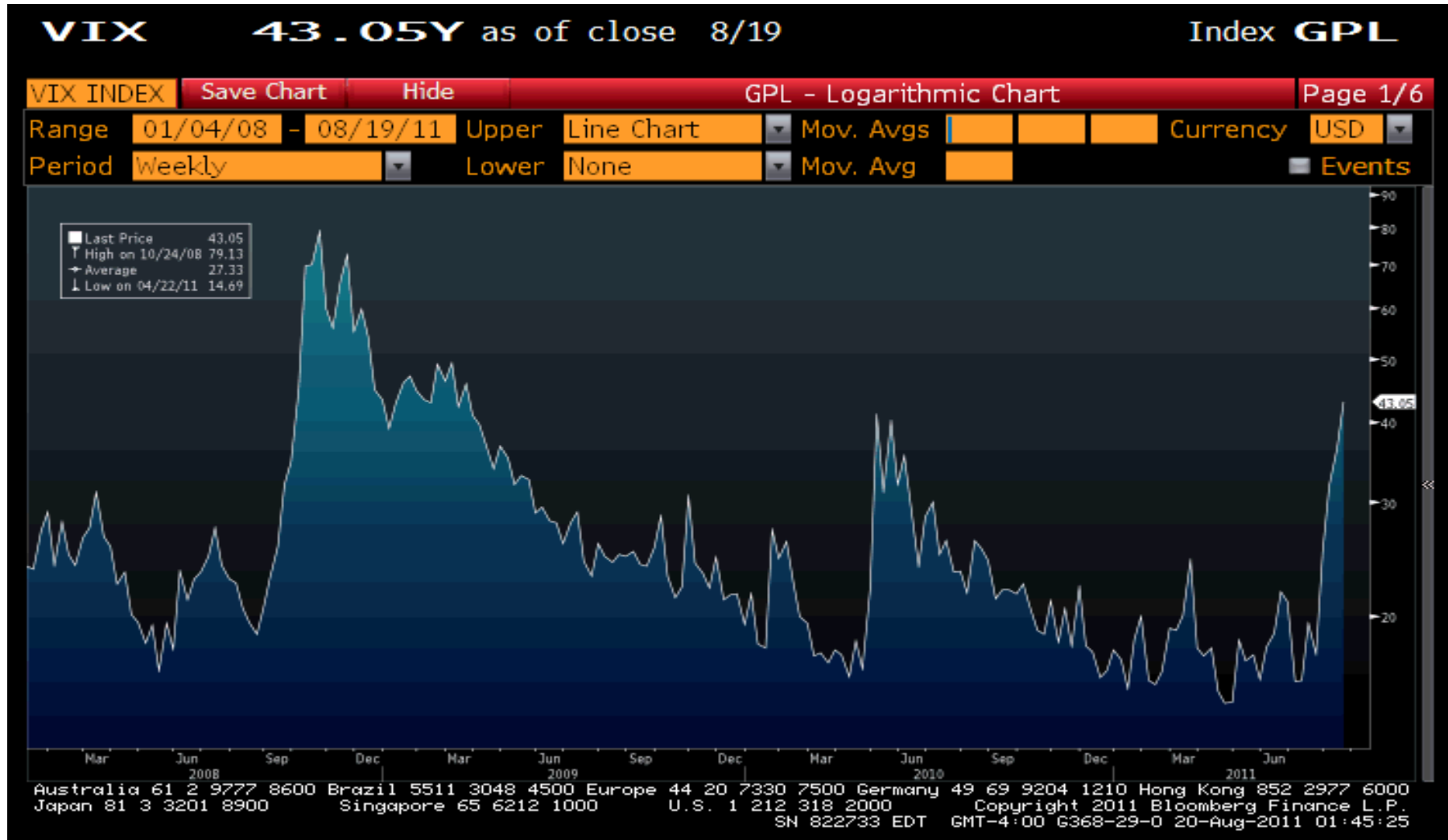


Market Vectors Nuclear Energy (NYSE: NLR)



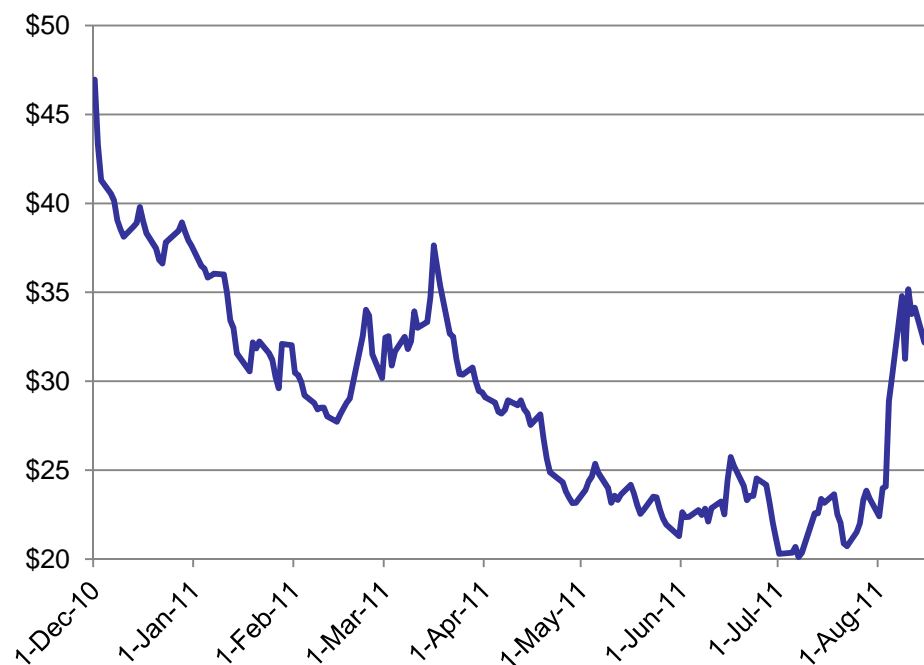
- Largest industry focused ETF with \$127.8 million in AUM
- Yields 4.8%
- Expense ratio of 0.57%
- Very liquid unlike many of its peers
- Portfolio is currently 23 holdings, though can range up to 40

The Fear Index



iPath S&P 500 Short-Term Futures (NYSE: VXX)

- Greatest volatility since the 1970s
- Negative correlation with the S&P 500 with zero tracking error
- One month duration
- Based on futures do it does experience a negative roll
- 0.89% expense ratio



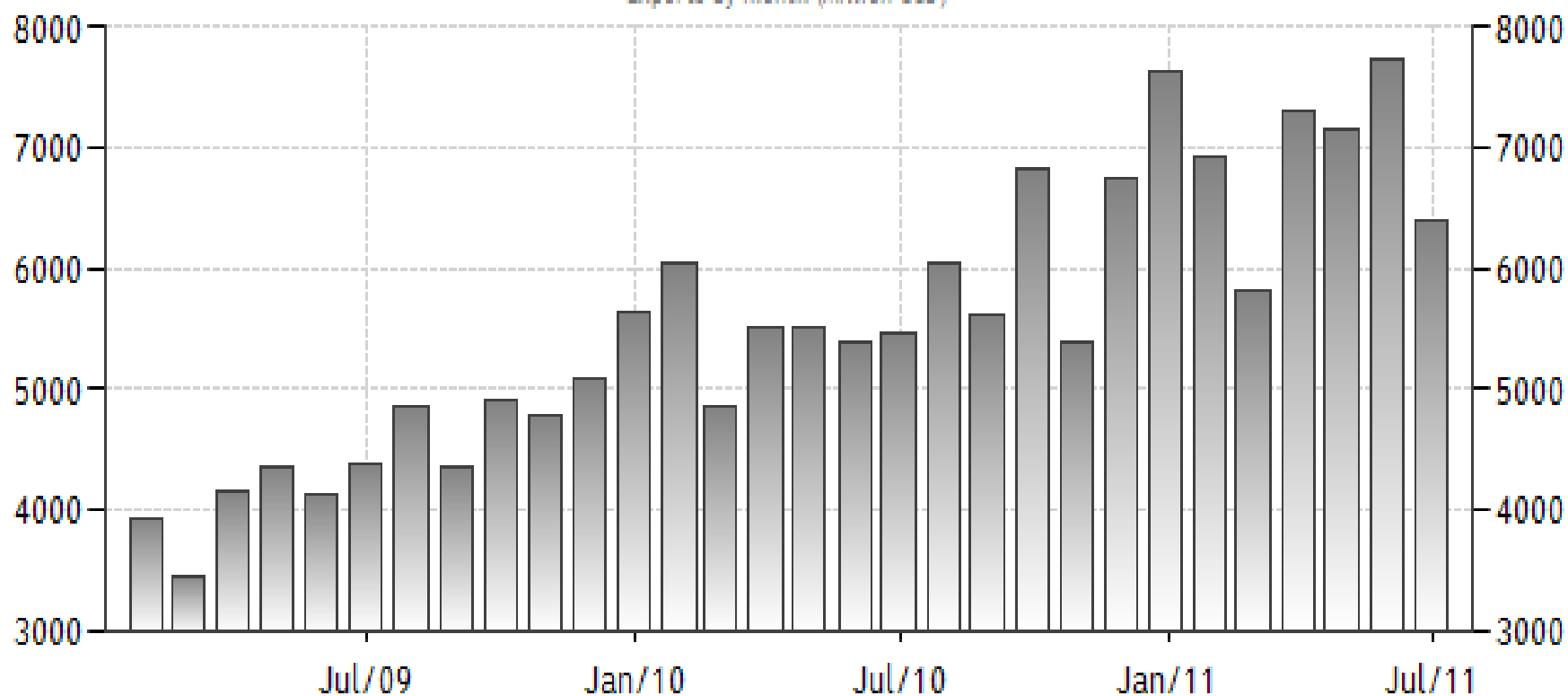
Andean Empire

- Politically stable, resource rich and fiscally conservative
- Unlike many other resource economies which went on a spending spree, Chile set aside much of the excess revenue.
- Already pro-market; President Sebastián Piñera is Center-right, Piñera is one of Chile's richest men and holds a Harvard doctorate in economics.
- Recently become the first South American country to join the OECD.
- Deepening trade links with Asia – China in particular.
- Standard of living steadily rising. In 1990, 38.6% of Chileans lived in poverty. Today, that number is just 13.7%.

Andean Empire

CHILE EXPORTS

Exports by month (Million USD)



source: TradingEconomics.com; Banco Central de Chile

GlobalETFProfits

www.GlobalETFProfits.com

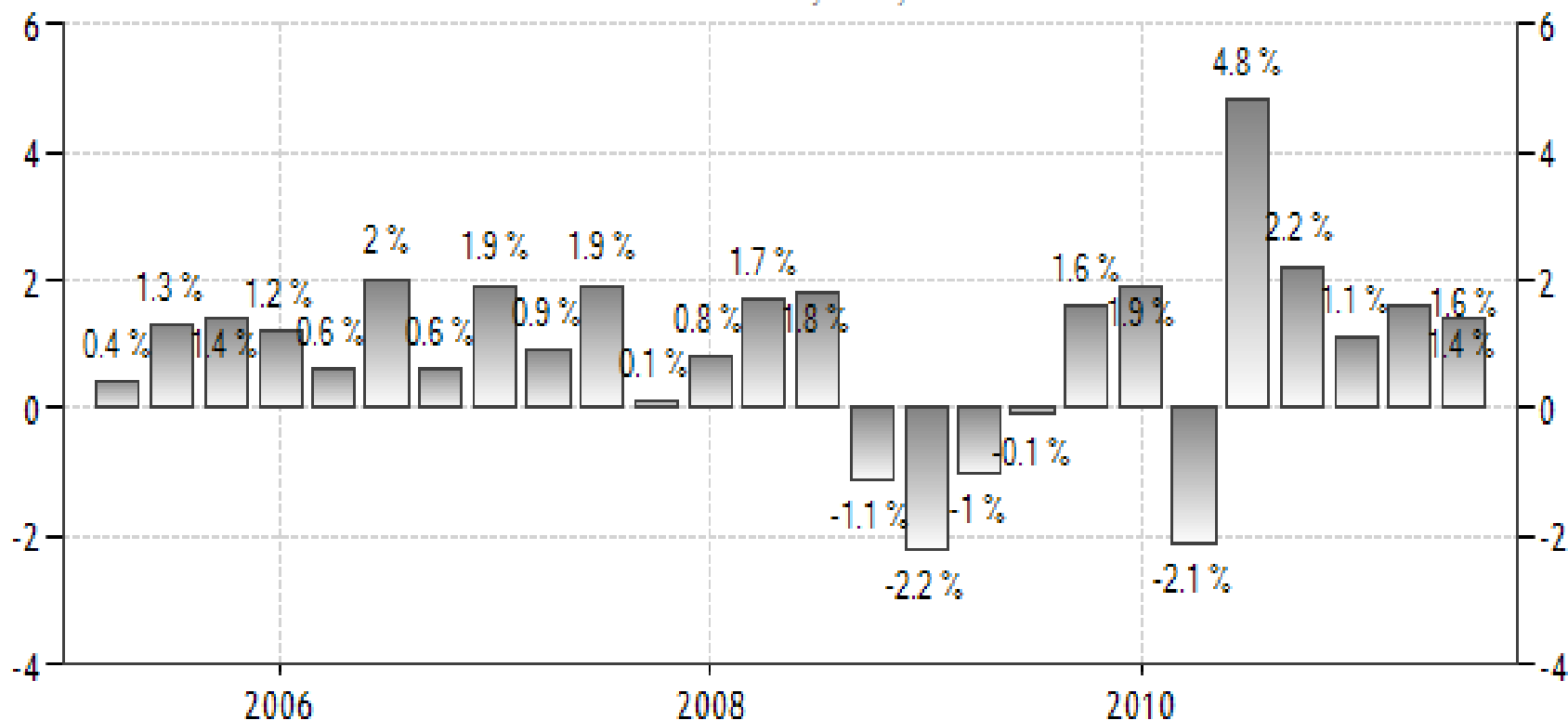
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Andean Empire

CHILE GDP GROWTH RATE

Annual GDP Growth Adjusted by Inflation



source: TradingEconomics.com; Banco Central de Chile

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www.GlobalETFProfits.com

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iShares Chile Investable Market (NYSE: ECH)

- **Utilities, 24.6;**
Industrials, 20.0%;
Materials, 18.9%
Consumer Staples,
13.2%; Financials,
12.3%
- Empresas Copec SA,
Cencosud SA, Empresa
Nacional de Electricidad,
Enersis SA
- Expense ratio of 0.61%
- 1.8% yield

