



Quick Q & A #23

Q: What can we learn from ETF performance?

Symbol	Fund	Inception	Total return as of 3-31-10
ILF	iShares S&P Latin America 40 Index	10/26/01	+ 498.94
IXC	iShares S&P Global Energy	11/12/01	+ 140.44
IXP	iShares S&P Global Telecommunications	11/16/01	+ 25.37
IXJ	iShares S&P Global Healthcare	11/21/01	+ 5.60
IXG	iShares S&P Global Financials	11/16/01	+ 5.49
IXN	iShares S&P Global Technology	11/16/01	- .83

A: Return is only part of the story.

Many exchange traded funds have now been on the scene long enough that performance statistics are available for five, ten, or more years. Human nature compels many investors and advisors to use this historical data to crown the “best” funds – generally meaning those with the highest total returns.

Consider these iShares ETFs shown above, all launched in late 2001. We use these funds in our client portfolios, among several dozen others. To say the results vary is a wild understatement. The Latin American fund (ILF) posted phenomenal returns – up a cumulative 498% since inception. At the other end of the spectrum, the IXN technology fund lost value over the 8+ year timeframe.

ILF was a giant home run. But focusing solely on return can distort the purpose and quality of an ETF. For Osbon Capital, an index boutique, the “best” ETFs are not necessarily those with the highest return, but those that provide cost-effective exposure to specific asset classes.

Representing asset classes

We utilize ILF because it gives our clients a stake in the growing economies of Latin America, which we consider to be an important asset class. We feel the ETF, which has accurately tracked S&P’s Latin America 40 Index, is well designed and well managed, and its reasonable expense ratio of 50 basis



points means investors retain most of the fund’s returns. The fact that it has delivered a high return over recent years is icing on the cake.

For the same reasons, we believe the poor performing IXN is just as “good” as ILF. Despite its discouraging negative return since 2001, we feel it provides cost-effective tracking of an important index and therefore helps to represent the depth and breadth of world markets.

We are careful to never predict future performance based on past results. We will not speculate on whether ILF will continue to outperform IXN. We are intent on holding these and other asset classes in proportions that balance the overall risk and return of each client’s portfolio. We will let long term performance take care of itself.

This Q&A reminds us that all performance numbers are snapshots. Cumulative return represents years of ups and downs in a single number. Looking only at these snapshots is like trying to appreciate a whirlwind action movie by viewing a single frame of film. Still life photos just can’t tell the whole story, as the daily performance chart below demonstrates.





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Next time: Is BlackRock going passive?

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Total return (price change plus dividend yield) for these ETFs is shown from fund inception through March 31, 2010. Data from MSN Money. The data assumes reinvestment of dividends and is expressed in U.S. dollars. Daily performance chart from Fidelity.com. This is a small sample of ETFs for illustrative purposes and is not meant to represent all available funds.

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