



Are Sector ETFs Losing Their Allure?

A recent story in the *Wall Street Journal* ("Sector' ETFs May Be Losing Some Allure," September 14, 2007) suggests that narrowly focused sector-based ETFs are losing popularity among investors, and are suffering from poor returns. Several readers of the article asked Advisor Perspectives (AP) whether this trend is occurring within the AP Universe, which would reflect a change in sentiment among Registered Investment Advisors (RIAs) and their high- and ultra-high net worth clients.

Advisor Perspectives' analysis shows that sector-based ETF investing represents a small portion of portfolios in the AP Universe, and that it has actually grown since the beginning of Q3 2007. The study reviewed all U.S. sector-based ETFs, and compared the holdings in these securities as of last Friday (September 14, 2007) to the holdings at the end of the prior quarter (July 1, 2007). The study notes the following:

- Assets under management (AUM) in sector-based ETFs increased by 18.4% over this period. The number of accounts holding these funds also increased. In the AP Universe, changes in AUM can be due to changes in the number of accounts holding a fund, to assets flowing into or out of these accounts, or to changes in the values of the funds (the rate of return on the fund). For all sectors, our analysis shows that the AUM change is greater than the rate of return for the fund, ensuring that the growth of these funds is due to additional assets in the AP Universe.
- Sector-based ETFs represent an extremely small portion of the assets in the AP Universe – approximately 0.13% (as of September 14).
- ETFs based on Energy and Real Estate represent the bulk of sector-based ETF investing, accounting for 44.5% of the assets.

In addition, none of the ETFs mentioned in the WSJ article (XHB, REM, and IPRV.LN) are held in the AP Universe.

Commenting on the WSJ story and the study, Advisor Perspectives CEO Robert Huebscher noted, "Advisors continue to use sector-based ETFs as a mechanism to gain exposure to slices of the market, typically when they cannot find an acceptable actively managed fund for the sector and seek diversification within the sector. Advisors have been and are continuing to avoid the more narrowly focused (and more thinly traded) ETFs mentioned in the WSJ article."



The table below presents the data for the full AP Universe:

	AUM as of 9/14	Change in number of accounts	AUM change since 7/1/07	AUM change (%)	3 Mo Rate of Return
Agriculture	\$1,809,491	4	\$591,300	48.5%	-0.01
Consumer services	\$1,088,913	0	\$162,088	17.5%	-0.05
Consumer staples	\$3,683,167	-3	-\$283,667	-7.2%	-0.21
Crude oil	\$2,833,809	8	\$2,269,352	402.0%	6.92
Energy	\$14,935,225	30	\$2,247,299	17.7%	3.19
Financial	\$4,664,224	-3	\$712,662	18.0%	-9.07
Health care	\$6,998,341	37	\$1,067,213	18.0%	-1.79
Industrials	\$2,623,841	-2	\$327,514	14.3%	0.68
Materials	\$3,273,102	5	\$571,434	21.2%	-2.38
Natural resources	\$2,332,479	20	\$664,297	39.8%	3.61
Oil services	\$1,327,660	-1	-\$104,997	-7.3%	2.86
Real estate	\$13,193,769	2	\$1,095,171	9.1%	-7.28
Technology	\$2,409,428	4	\$691,744	40.3%	1.46
Utilities	\$1,999,649	19	-\$184,121	-8.4%	-0.01
Total	\$63,173,098	120	\$9,827,289	18.4%	

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