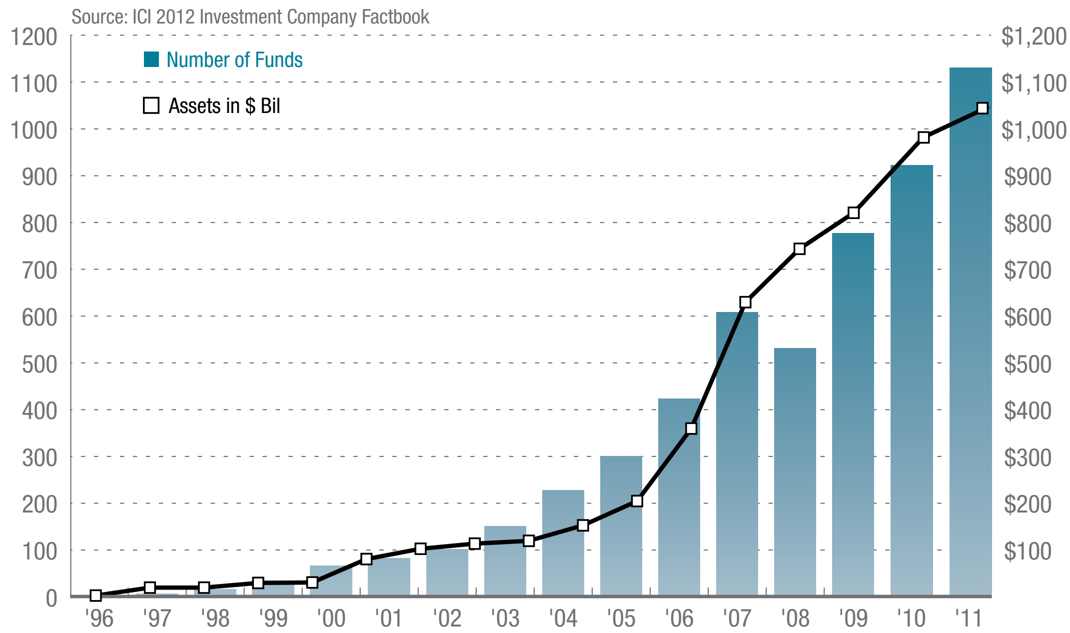
Exchange Traded Funds (ETFs)



Growth of ETFs

Exchange Traded Funds, or ETFs, remain one of the fastest growing areas of the mutual fund industry. The number of ETFs to choose from and the dollars invested in them has mushroomed.

In 1999, there were just 30 ETFs. Ten year later, there were nearly 800 ETFs, targeting ever more narrow segments of both stock and bond markets around the globe.

The sheer number of available ETFs provides investors with many investment opportunities, but it can be daunting for investors to choose from among all the possible ETFs, and other challenges may arise when trading these instruments.

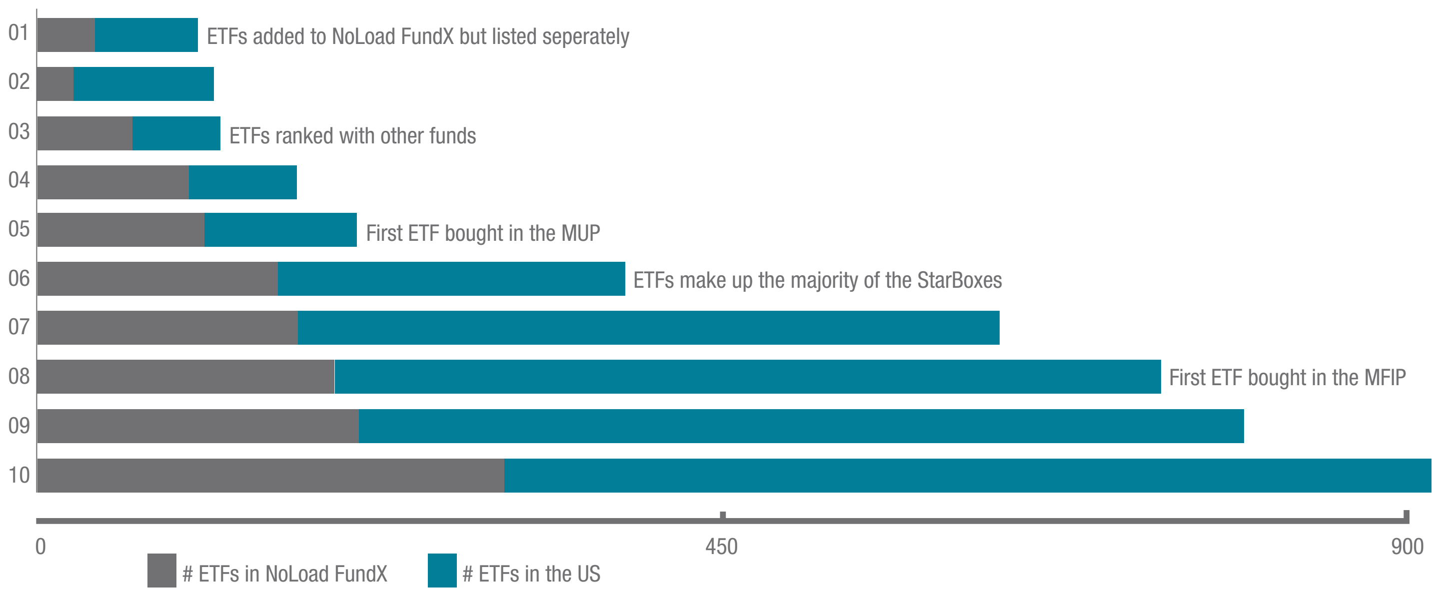
We aim to help investors determine what ETFs to buy and when to sell them, and offer tips on how to effectively trade them.

Most ETFs are SEC registered 1940 Act mutual funds, but they are listed on exchanges and trade like stocks. Like mutual funds, ETFs are baskets of stocks or bonds. Most are index-based and focus in a particular sector or region, and most ETFs track market indexes and are therefore "passively managed."

There's certainly a lot to like about exchange traded funds. ETFs trade throughout the day like stocks and don't require minimum hold times like many regular mutual funds. ETFs also usually have lower expenses than regular mutual funds providing a relatively low cost way to get exposure to most markets, sectors and regions. Although it's important to remember that, at the end of the day, the best judge of any investment is the net (after fees and expenses) total return.

10 Years

of NoLoad FundX and ETFs



ETFs in NoLoad FundX

The concept of passively managed portfolios of securities that track an index is not new – NoLoad FundX newsletter started tracking Vanguard's S&P 500 Index fund in 1976.

As ETFs proliferated and covered more areas of the market, we integrated them seamlessly into our system, right alongside actively managed funds. We believe that an expanded universe to choose from can provide the best opportunities so long as we have a disciplined and proven selection process.

We combine ETFs and actively managed funds, classified by risk, then rank and sort all funds by current performance. At times, many of the top performing funds are ETFs, and at other times, actively managed funds have better returns.

But we don't include just any ETF in our portfolios. The ETFs in NoLoad FundX represent just a fraction of the ETFs now on the market. But we sort through the universe of available ETFs to find those that matter most.

We screen out newer ETFs that lack the 12-month performance record necessary for us to rank a fund. We also want to include ETFs with adequate liquidity that can be easily traded. Asset size and trading volume (the average number of shares bought and sold in a day) are pretty good – though not perfect – indicators of liquidity, so we also screen ETFs by these factors. We look for ETFs with an average daily trading volume of at least 30,000 shares. New additions to our listings have at least $100 million in assets.

We exclude exchange traded notes (ETNs) because they are structured and regulated quite differently than ETFs. We also don't list inverse or leveraged ETFs (see page 5). We prefer ETFs that hold a basket of stocks, rather than those that rely on derivatives. We also don't list many HOLDRs because these must be purchased in 100-share blocks.

Finally, some ETFs are simply redundant: many ETFs track the same index and we usually avoid listing too many duplicates.

Trading ETFs

The table below summarizes some of the common differences between ETFs and noload funds:

ETFs	NoLoad Funds
Market price varies as shares are traded throughout the day.	Priced once a day, at the close of the market.
Many ways to trade: market orders, limit orders or stop loss orders.	One way to trade. Orders are always executed at NAV (Net Asset Value)
Usually a fee to buy or sell	May be available without transaction fees.
Usually no trading restrictions or redemption fees	Redemption fees are common (from both funds and brokers)
ETF trades take three days to settle.	Most funds settle in one day.

Challenges of Trading ETFs

Fees - There are usually trading costs involved in buying and selling ETFs (although some brokers now have a select group of ETFs that are available to buy and sell without any commissions). Because a fee is usually charged for each trade, these fees are proportionately greater for smaller purchases. If you trade ETFs fairly actively or hold a large number of small positions, you could wind up paying more than you'd expect.

Tracking Issues - Most ETFs are index-based, but some ETFs have difficulty aligning their performance with that of their underlying index. At times, investors may find they aren't getting the same returns as the index they'd hoped to track.

Of course, this doesn't mean that you should avoid ETFs, but we do suggest putting some additional time and effort into trading ETFs.

3 ETF Trading Tips

When you're preparing to trade an ETF, look for two key pieces of information, trading volume and the bid/ask spread, and consider when you are placing your trades.

1. Trading volume is the number of shares bought and sold that day and it can vary widely. With more actively traded ETFs, such as PowerShares QQQ Trust (which tracks the NASDAQ 100 Index) volume can exceed 100 million shares a day, making it very easy to get a fair price.

Volume under 40,000 shares in a day is quite low, and indicates that there is not much liquidity in that ETF. If you are buying 500 shares in an ETF with low volume your trade could actually move the price up. In June 2009, Guggenheim Multi-Asset Income Index (CVY), for example, traded less than 20,000 shares in a day. This indicates it might be difficult to exit that fund when the time comes to sell.

2. The bid/ask spread is the difference in the lowest price a seller is willing to accept and the highest price a buyer is willing to pay as of the last trade. Consider this spread to be part of the cost to you, the investor. In big, widely traded ETFs spreads are miniscule, a penny or two at most. In small, thinly traded ETFs the spreads can be substantial, five or ten cents or more.

When the spread is wide, consider placing a limit order, naming a price somewhere below the asking price. This will make it less likely that you will overpay for the shares. However, it does mean your order may not be filled.

3. Avoid trading an ETF at the open. In those first few minutes of trading price swings can be wild and the spread between the bid and ask price can be very wide (1-3% spreads are common). By waiting 30 minutes or so, you'll allow the ETF to come more closely in line with its underlying index. Often , ETF portfolios trade right in line with the underlying index during the last five minutes of trading.

Placing ETF Orders

A limit order provides more control over the execution price, but unlike market orders, limit orders are not guaranteed and your trade may not be filled.

Types of Trades

Market Order - A market order is an order to buy at the next available price. Market orders are guaranteed to be executed.

Limit Order - With a limit order, you specify the maximum price you are willing to pay per share, but if shares never become available at that price, your order will not be filled.

Stop Loss Order - A stop loss is an order to sell at the next market price if an ETF falls below a given price. For example, if you could place a stop loss order on a $50 ETF at $47.50. If the price stays above $47.50, you continue to hold the ETF. If it drops below that price, though, your position is sold as a market order. Realize that if the ETF gaps lower, you will trade at the next available level which may be well below your intended stop price.

Q. What type of order should I place?

A. Relatively small trades (less than 300 shares) are generally best placed as market orders. For larger trades, consider a limit order which provides more control over the execution price.

Consider the spread between the bid price and the ask price. If the spread is less than $0.10, it may be easier to simply place a market order and know your order will be executed. But if the spread is larger, consider a limit order. When you place a limit order, you specify the maximum price you are willing to pay per share. If, for example, an ETF is trading at bid $25 and ask $26, you could place a limit order for $25.50.

By using limit orders, you control your maximum price per share – assuming your order is filled. Unlike market orders, limit orders are not guaranteed. They are placed only if the security is available at no more than the limit order price; if the ETF continues to trade above your limit price, your trade won't be executed.

Q. Should I use stop losses with ETFs?

A. In Upgrading, we use our ranking system to determine when to sell a fund or an ETF, not fluctuations in share price. A stop loss sounds good in theory, since every investor wants to limit losses. But if your shares are sold, you'll then need to decide when and how to get back into the market. And if you buy back in at the same price you sold, you'll still pay a commission for both the buy and sell and likely some spread.

Many investors wait to see that "the trend has turned up" before buying back in, and this may result in sitting on cash while the ETF regains ground and heads higher. We believe that over time you will do better by simply Upgrading.

Q. Trading ETFs seems complicated. Do I have to use them?

A. ETFs are rarely the only option, even for active traders: ProFunds and Rydex funds have minimal restrictions and many brokers will waive their redemption requirements for these funds as well. Check with your broker to confirm their policy.

Our Upgrading strategy works whether you use both exchanged traded funds and mutual funds (as shown in NoLoad FundX) or whether you limit your portfolios to either exchange traded funds or mutual funds. In most of our portfolios, we use a mix of funds and ETFs based on what is highly ranked.

Additional Risks & Tax Implications

ETNs & Leveraged ETFs

Exchange Traded Notes: Not Like Most ETFs

Although exchange traded notes (ETNs) are exchange traded, ETNs aren't registered as funds under the Investment Company Act of 1940, and they are not baskets of stocks or securities replicating an index.

Instead, ETNs represent a general obligation of the issuer (or some other named counterparty) who promises to deliver the return of some index. This introduces significant counterparty risk, without any clear collateral requirement and with no limit on leverage. Worse, if the issuer loses its credit rating or is insolvent, investors have no recourse (basically you are a bond-holder).

If this sounds far-fetched, consider that Lehman Brothers issued ETNs less than 3-weeks before declaring bankruptcy in 2008, leaving investors holding a product that was no longer liquid and was now an obligation of a bankrupt counterparty.

Contrast this with a mutual fund or ETF: a mutual fund or ETF is a segregated portfolio that holds a basket of securities (including cash). In the event that a service provider declared bankruptcy, the fund's board could hire another provider or liquidate the fund and all shareholders would be redeemed at the current NAV. ETNs do not have this protection.

By limiting our universe to ETFs and mutual funds, we may miss some opportunities that are offered only through ETNs. We are willing to reconsider ETNs if new regulations will better protect investors from counterparty credit risks.

Additional Risks of Leveraged ETFs

We believe that the potential benefit of leveraged ETF is generally outweighed by risks. Much has been written about tracking error and poor long-term performance of leveraged ETFs. What many fail to recognize is that most leveraged ETFs get their index exposure through swap agreements (in other words, a counterparty agrees to provide leveraged exposure to the index for a fee).

Leveraged ETF providers manage this risk by spreading investments among several swap counterparties, and holding collateral. Still, the pool of swap counterparties is limited (Lehman Brothers and Bear Stearns are no longer available) and there is no standard to measure how a swap dealer is hedging its exposure.

Also, leveraged ETFs are extremely volatile. A "normal" trend in an underlying index includes both up and down moves. Mixing leveraged and unleveraged funds in the rankings increases the volatility of the rankings of the unleveraged funds (as leveraged alternatives bounce up and down) and the losses one takes when whip-sawed can be devastating.

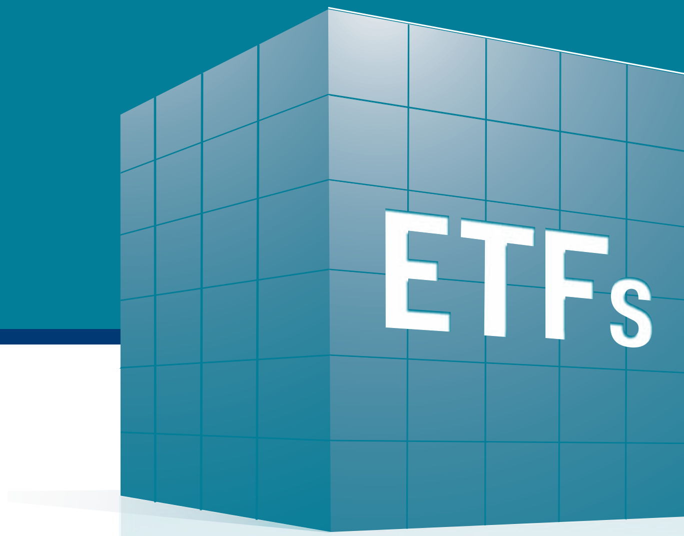
Tax Implications of Partnerships and Trusts

Most ETFs are structured as open-end funds, but some ETFs are structured as partnerships or as grantor trusts and these ETFs have different tax implications.

Commodities ETFs such as PowerShares DB Agriculture (DBA) are commonly set up as partnerships. Rather than issuing a 1099 form at tax time, partnerships issue investors a Schedule K-1. This can be a problem for tax-deferred accounts because it can make an investment in a tax-deferred account taxable.

Metals ETFs, such as SPDR Gold Trust (GLD) and iShares Silver Trust (SLV) are often structured as trusts. Both ETFs hold actual physical gold or silver rather than investing in gold or silver mining stocks. Because gold and silver are considered "collectibles" for income tax purposes, capital gains are taxed at 28% versus 15% for ordinary capital gains.

How an ETF is structured is disclosed on the ETF's website and in the prospectus so check before you buy.



ETF Providers

Currency Shares
800-820-0888
www.currencyshares.com

Fidelity
1-800-FIDELITY
www.fidelity.com

First Trust
800-621-1675
www.ftportfolios.com

Guggenheim
888-949-3837
www.guggenheimfunds.com

iShares
800-474-2737
www.ishares.com

MarketVectors
888-658-8287
www.vaneck.com

PowerShares
800-983-0903
www.powershares.com

RevenueShares
877-738-8870
www.revenuesharesetfs.com

Schwab
866-232-9890
www.schwab.com

SPDR
866-787-2257
www.spdrs.com

Vanguard
888-241-1395
www.vanguard.com

WisdomTree
866-909-9473
www.wisdomtree.com

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