ETF News And Commentary »

3 Alternative ETFs for a Shaky Market

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EFFE HVPW QEH

Talks about moderation in U.S. economic growth were doing rounds since the Fed meeting in March. The latest private-sector jobs report and factory data points, which came in on the weaker side, strengthened the apprehension. A frigid winter, which has now become a seasonal threat every year, undoubtedly dulled the luster of the U.S. economic growth in Q1, but a surge in the greenback, oil price plunge and global growth worries were also responsible for the recent softness in the economy.

The Fed indicated a watchful stance on domestic growth in its March meeting. The central bank narrowed the U.S. economic growth projection (considering the central tendency method) for 2015 from 2.6−3% (guided in December) to 2.3−2.7%. The growth projections for 2016 and 2017 were also cut to 2.3−2.7% and 2.0−2.4%, respectively, from 2.5−3% and 2.3−2.5% (read: ETF Winners and a Loser Post Fed Meeting).

While the investing world was busy digesting this downgrade, the ADP job reading came in at 189K for March against estimates of about 230K and the first time below 200K in 11 successive months. U.S. factory activity touched an almost two-year low with the index sliding to 51.5 in March from 52.9 in February. Per Reuters, GDP estimates for Q1 range from 0.8% to 1.2%, at the current level.

The recent bout of volatility in the equity market has made investors overly cautious about portfolio creation. The skepticism has left benchmark indices beaten down and these entered Q2 on a negative note. The S&P 500 was up 0.04% YTD and Dow Jones Industrial Average was off 0.7% YTD (as of April 1, 2015) though Nasdaq Composite was able to gain over 3% on the technology strength.

In the next couple of weeks, earnings may drive the market higher or lower. But chances of a strong rebound remain rather slim and risks of a back off cannot be ruled out as negative revisions in earnings' estimates trend were prominent for Q1 (read: 5 Inverse ETFs for A Shaky Market).

All these deterrents might keep the stock market volatile, which investors could tide over with alternative or diversified ETFs. Further their low correlation with the market makes them attractive as portfolio diversifiers for better risk-return performance over the longer- term.

JPMorgan Efficiente Index ETF (**EFFE**)

This new ETF intends to deliver the return of the JPMorgan ETF Efficient 10TR Series X index. The fund's strategy is to generate returns by investing in diverse asset classes with low correlation to the broader markets. EFFE has 5 holdings in its basket right now. The fund has amassed about

$18.6 million in assets since its inception in October 2014 (read: Inside the New Global X JPMorgan Efficiente Index ETF).

As of March 31, 2015, the fund allocated assets to **iShares 20+Yrs Treasury ETF, iShares iBoxx Investment, iShares S&P Small Cap ETF, Vanguard REIT ETF** and **Vanguard FDS S&P 500 ETF** each accounting for about 20% of the portfolio.

EFFE is up 2.3% so far this year and advanced 0.1% on April 1.

US Equity High Volatility Put Write Index Fund (**HVPW**)

The fund looks to take advantage of the stocks with the highest volatility in the U.S. equity markets. As the volatility in a given stock rises, so does the price of the options traded on it. The underlying index of the fund seeks to generate income by selling put options on the most volatile stocks in a given two-month period along with interest earned on T-bills.

This $49.4 million-ETF charges 95 bps in fees for this unique exposure. The fund is up 2.6% so far this year and added 0.3% on April 1.

QAM Equity Hedge ETF (**QEH**)

This overlooked active ETF uses long/short equity strategy, employing both quantitative & fundamental techniques. It follows a fund-of-funds approach with long positions in ETFs like **Guggenheim S&P 500 Equal Weight ETF** (RSP), **iShares Short Treasury Bond ETF** (**SHV**) and short positions in **Currencyshares Euro Trust** (**FXE**) and **Currencyshares Japanese Yen Trust** (**FXY**) (read: Can U.S. Dollar ETFs Continue to Surge in 2015?).

This $7 million–ETF charges 150 bps in fees. The fund was up 1.24% in the YTD frame (as of April 1, 2015) and added 0.7% gains on the first day of Q2.

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