



Along Came a SPDR...

An Exchange Traded Fund (ETF) can be akin to the lovechild of a mutual fund and a stock. ETFs are pooled investments that track an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. Because of its tradability, the price of an ETF experiences changes throughout the day as it is bought and sold on the market. One of the most widely known selections of ETFs is the Select Sector Spiders (SPDRs), which divide the S&P 500 index into 9 sectors.

Select Sector SPDRs provide the benefit of investing in well-known, large cap stocks of the S&P 500, with the ability to allocate different weightings to particular sectors based on your own investment goals and strategies. Each Select Sector Index is calculated using a modified "market capitalization" methodology in which each of the component stocks within a sector is represented in proportion to its percentage of the total market cap of that particular index. However, it is also modified so that an individual security does not comprise more than 25% of the index.

In addition to the tradability, flexibility and diversification available to investors in using ETFs, there are further advantages to using Select Sector SPDRs. Since these ETFs aim to match the performance of their underlying sector index and not outperform like a typical mutual fund, they are managed passively and consequently are able to eliminate many of the operating, research and transaction expenses incurred by active money managers. These cost savings are then passed along to the investor in the form of lower expense ratios. The average expense ratio for Select Sector SPDRs is 0.21% compared to 1.5% for typical mutual funds.

The holdings of Select Sector SPDRs are available on a daily basis whereas active mutual funds generally reveal their entire holdings just twice a year. This can lead to questions about how closely the fund manager is sticking to the objectives and style of the fund. The transparency of the portfolio also facilitates hedging for investors as it is easy to obtain or hedge exposure to a specific group of securities. Using the Select Sector SPDRs, it becomes easy for an investor to maintain desired allocations in specific sectors of the S&P 500 Index even as the market capitalization of the Index itself changes over time.

Here is a brief description of the 9 Select Sector Indexes on which the Select Sector SPDRs are based, their ticker symbols and some performance data for the year as at 31 August 2009.

Technology Select Sector SPDR Fund: XLK

Brief description: Primarily covers products developed by internet software and service companies, IT consulting services, semiconductor equipment and products, computers and peripherals, diversified telecommunication services, and wireless telecommunication services. Companies include Microsoft Corp., Apple, IBM Corp.

One Month Return: 1.74% Latest Quarter: 10.29% Calendar YTD: 31.28%

Utilities Select Sector SPDR Fund: XLU

Brief description: This index provides companies involved in water and electrical power and natural gas distribution industries such as Exelon, Duke Energy Corp. and FPL Group.

One Month Return: 0.76% Latest Quarter: 4.64% Calendar YTD: 2.54%

Industrials Select Sector SPDR Fund: XLI

Brief description: This Index includes aerospace and defense, building products, construction and engineering, electrical equipment, conglomerates, machinery, commercial services and supplies, air freight and logistics, airlines, marine, road and rail, and transportation infrastructure companies. Big players include General Electric, 3M and Boeing Co.

One Month Return: 4.61% Latest Quarter: 14.17% Calendar YTD: 9.07%

Materials Select Sector SPDR Fund: XLB

Brief description: Invests in companies involved in industries such as chemicals, construction materials, containers and packaging, metals and mining, and paper and forest products. This includes Monsanto, E.I. DuPont de Nemours & Co., and Nucor

One Month Return: 2.29% Latest Quarter: 15.46% Calendar YTD: 32.42%

Health Care Select Sector SPDR Fund: XLV

Brief description: Health care equipment and supplies, health care providers and services, biotechnology, and pharmaceuticals industries such as Pfizer Inc., Johnson & Johnson, and Merck & Co., Inc.

One Month Return: 2.36% Latest Quarter: 8.45% Calendar YTD: 8.77%

Consumer Staples Select Sector SPDR Fund: XLP

Brief description: Companies in the development and production of consumer products that cover food and drug retailing, beverages, food products, tobacco, household products, and personal products. It includes companies like Wal-Mart, Proctor & Gamble and Coca-Cola.

One Month Return: 1.25% Latest Quarter: 7.88% Calendar YTD: 5.53%

Consumer Discretionary Select Sector SPDR Fund: XLY

Brief description: Industries such as automobiles and components, consumer durables, apparel, hotels, restaurants, leisure, media, and retailing and includes companies such as McDonald's, Amazon.com, Walt Disney and Home Depot.

One Month Return: 3.48% Latest Quarter: 13.25% Calendar YTD: 22.99%

Energy Select Sector SPDR Fund: XLE

Brief description: Companies in the development and production of crude oil and natural gas, and provide drilling and other energy-related services such as ExxonMobil Corp., ChevronTexaco Corp, and Schlumberger.

One Month Return: 1.02% Latest Quarter: 6.42% Calendar YTD: 8.00%

Financials Select Sector SPDR Fund: XLF

Brief description: Financial service firms with business lines ranging from investment management to commercial and investment banking. Includes American International Group Inc., Citigroup Inc., and Bank of America

One Month Return: 12.96% Latest Quarter: 22.98% Calendar YTD: 19.17%

As can be seen from the figures, most of the funds beat the S&P 500 Index's one month return of 1.54% and calendar year to date (YTD) return of 9.54%. Concentration of investment in specific sectors, such as materials and technology, at the start of the year would have lead to a portfolio that would have undoubtedly outperformed the S&P 500 Index at the end of August 2009. Access to these ETFs can easily be obtained through an online trading platform like the CMMBTrader.

Table 1: Regional Market Performance (as at 24 September 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	788.10	0.11	0.45	-6.50	-27.59
All Trinidad	1,102.72	0.24	0.86	-4.51	-24.59
JSE Index	79,799.64	-0.75	-0.79	-0.44	-23.08
JSE Select	1,771.39	-2.12	-1.99	-10.75	-37.66
All Jamaica	64,798.36	-1.65	-1.72	-12.43	-37.65
BSE Composite	833.65	-1.72	-1.45	-9.37	-19.63

Table 2: International Market Performance (as at 24 September 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1,050.78	-1.38	2.46	16.33	-11.39
Nasdaq Composite	2,107.61	-0.90	4.44	33.64	-2.23
Dow Jones Industrial	9,707.44	-0.78	2.08	10.61	-10.33
German Dax	5,605.21	-2.20	1.55	16.53	-7.40
FTSE 100	5,079.27	-1.64	3.74	14.55	-0.32
Nikkei 225	10,544.22	0.96	-0.35	20.54	-12.97
Hang Seng	21,050.73	-3.30	2.51	46.31	11.02
DJ Eurostoxx	2,838.22	-1.98	2.16	15.78	-9.03

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