

Russell 2000 Index ETFs

Ratings of Investment Merit

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- We recommend investors buy only the Very Attractive and Attractive stocks in the Russell 2000, not a Russell 2000 ETF.
- Russell 2000 ETFs have Dangerous Overall Risk/Reward Ratings because the index offers more downside risk than upside potential.
- This research enables investors to analyze funds as they analyze stocks.
- We offer custom and enhanced ETFs based on our top-ranked stock rating system.
- Our analysis is based on aggregation of models for companies in the Russell 2000 and weighted according to the ETFs' allocations to those companies.
- We offer individual ETF reports on 400+ ETFs.

Figure 1: New Constructs' Risk/Reward Rating - Russell 2000 Index ETFs

Overall Risk/Reward Rating	Quality of Earnings		Valuation		
	Econ v Reported Earnings	ROIC	FCF Yield	Price-to-EBV	GAP (yrs)
Very Dangerous	Misleading Trend	Bottom Quintile	<-5%	>3.5 or -1<0	More than 50
Dangerous	False Positive	4th Quintile	-5%<-1%	2.4<3.5 or <-1	20<50
Neutral	Neutral EE	3rd Quintile	-1%<3%	1.6<2.4	10<20
Attractive	Positive EE	2nd Quintile	3%<10%	1.1<1.6	3<10
Very Attractive	Rising EE	Top Quintile	>10%	0<1.1	Less than 3

Market-Weighted Avg	n/a	8.7%	-1.2%	4.2	53
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* % may not add up to 100% due to the exclusion of cash and holdings not in our coverage universe.

Sources: New Constructs, LLC and company filings

Russell 2000 ETF Overview

There are currently 4 Russell 2000 ETFs with an average expense ratio of 0.3% and over \$15 billion in assets. These ETFs have nearly identical holdings and weightings. The Risk/Reward ratings and weighted-average values in this report apply to each of these ETFs.

Figure 2: Top 4 U.S. Equity Russell 2000 ETFs by Market Cap

ETF Symbol	ETF Name	Expense Ratio	Exposure	Index	Market cap
IWM	iShares Russell 2000 Index Fund	0.3%	Long	Russell 2000	\$15,358,101,000
UWM	ProShares Ultra Russell2000	1.0%	Double Long	Russell 2000	\$192,132,000
URTY	ProShares UltraPro Russell2000	1.0%	Triple Long	Russell 2000	\$67,702,500
VTWO	Vanguard Russell 2000 ETF	0.2%	Long	Russell 2000	\$32,860,000

Source: New Constructs, LLC

For a detailed description of an individual ETF's predictive ratings, purchase an [Individual ETF Report](#) for any of the 400+ ETF's we cover. Sample reports are available [here](#).

Methodology

Our Risk/Reward ratings have a solid track record of outperformance for investors.

Barron's ranked us #1 for stock-picking.

Custom ETFs: Contact us for best-of-breed and enhanced ETF products for a particular sector or index.

This report offers recommendations on Russell 2000 ETFs and benchmarks for (1) investors considering buying Russell 2000 ETFs and for (2) comparing individual ETFs to the S&P 500 index. Our analysis is based on aggregating results from our models on each of the companies included in the Russell 2000 (1624 companies) based on data as of July 12, 2011¹. We aggregate results for the ETFs in the same way the ETFs are designed. Our goal is to empower investors to analyze ETFs in the same way they analyze individual stocks.

To make an informed ETF investment decision, investors must consider the ETF's investment merit. An ETF's investment merit is determined by the quality of the ETF's holdings. We apply our stock rating system to each ETF's holdings to determine its investment merit.

Given the success of our rating system for individual stocks, we believe its application to groups of stocks (i.e. ETFs and funds) helps investors make more informed ETF and mutual fund buying decisions. Barron's featured our uniquely predictive ETF research in "The Danger Within".

Recommendations Summary

If you require exposure to the Russell 2000:

We recommend investors buy only the Very Attractive and Attractive-rated stocks in the Russell 2000 as opposed to a Russell 2000 ETF. Per Figure 5 below, Russell 2000 ETFs allocate 83% of their values to holdings in Neutral-or-worse-rated stocks. Please contact us if you would like access to an ETF of only the Very Attractive and Attractive-rated stocks for the Russell 2000 or any other ETF².

If you require exposure to a sector ETF:

We recommend investors review our Sector ETF Roadmap report or our 10 sector ETF reports, beginning with our Information Technology and Consumer Staples sector reports, which are the only sectors to earn an Attractive Overall Risk/Reward rating.

If you require exposure to a market ETF:

Investors seeking diversification with a single position or investors looking to buy a market ETF should consider an S&P 500 ETF over a Russell 2000 ETF. See the next section below, which compares Russell 2000 ETFs to S&P 500 ETFs.

If you are looking for exposure to the best stocks in the market:

We recommend you buy our Most Attractive Stocks.

¹ For an explanation of the merits of using market-weighted averages in aggregation analysis instead of aggregate values, see Jeremy Siegel's WSJ article "The S&P Gets Its Earnings Wrong."

² We offer custom aggregation reports with our ratings for any ETF, mutual fund, or portfolio. We help improve your portfolio's ratings by overweighting stocks with Attractive ratings and underweighting stocks with Dangerous ratings. Contact us for more information.

Market ETF Benchmark

Click [here](#) for more info on risk/reward rating system and our approach to equity research.

Ratings comparison

Russell 2000 ETFs underperform S&P 500 ETFs in valuation ratings. Russell 2000 ETFs have Price-to-EBVs of 4.2, earning them Very Dangerous ratings, and GAPs of 53 years compared to S&P 500 ETFs' Neutral Price-to-EBVs of 2.0 and Dangerous GAPs of 22 years.

Russell 2000 ETFs also underperform S&P 500 ETFs in quality of earnings ratings. Russell 2000 ETFs' ROICs of 8.7% place them in the 3rd quintile while S&P 500 ETFs' ROIC of 18.4% place them in the top quintile.

Figure 3: Russell 2000 ETFs – Risk/Reward Rating

Overall Risk/Reward Rating	Quality of Earnings		Valuation		
	Econ v Reported Earnings (bn)	ROIC	FCF Yield	Price-to-EBV	GAP (yrs)
Very Dangerous	Misleading Trend	Bottom Quintile	<-5%	>3.5 or -1<0	More than 50
Dangerous	False Positive	4th Quintile	-5%<-1%	2.4<3.5 or <-1	20<50
Neutral	Neutral EE	3rd Quintile	-1%<3%	1.6<2.4	10<20
Attractive	Positive EE	2nd Quintile	3%<10%	1.1<1.6	3<10
Very Attractive	Rising EE	Top Quintile	>10%	0<1.1	Less than 3
Market-Weighted Avg	n/a	8.7%	-1.2%	4.2	53

Sources: New Constructs, LLC and company filings

Figure 4: S&P 500 ETFs – Risk/Reward Rating

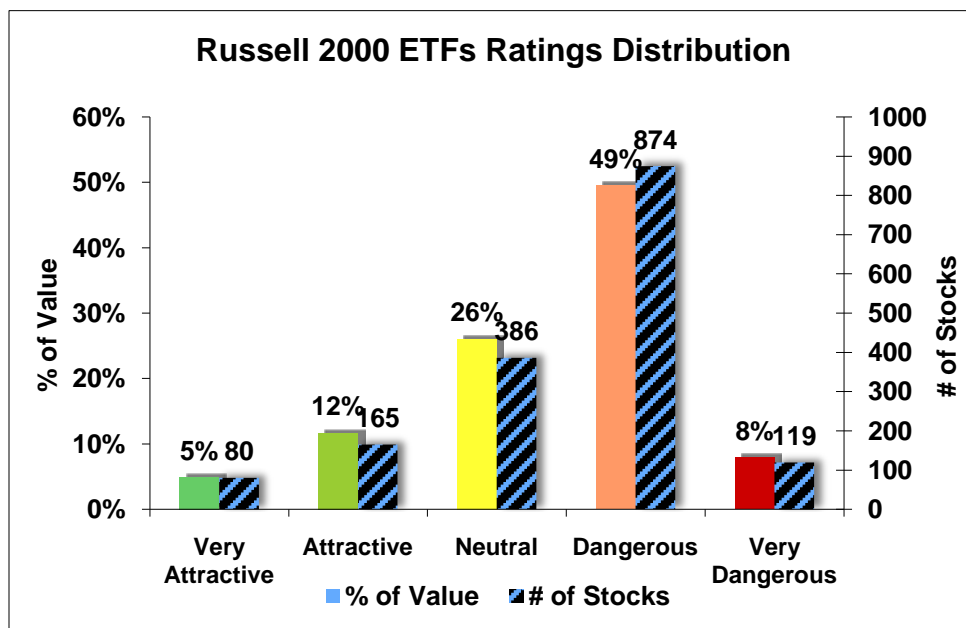
Overall Risk/Reward Rating	Quality of Earnings		Valuation		
	Econ v Reported Earnings	ROIC	FCF Yield	Price-to-EBV	GAP (yrs)
Very Dangerous	Misleading Trend	Bottom Quintile	<-5%	>3.5 or -1<0	More than 50
Dangerous	False Positive	4th Quintile	-5%<-1%	2.4<3.5 or <-1	20<50
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Attractive	Positive EE	2nd Quintile	3%<10%	1.1<1.6	3<10
Very Attractive	Rising EE	Top Quintile	>10%	0<1.1	Less than 3
Market-Weighted Avg	n/a	18.4%	2.1%	2.0	22

Sources: New Constructs, LLC and company filings

Allocation Comparison

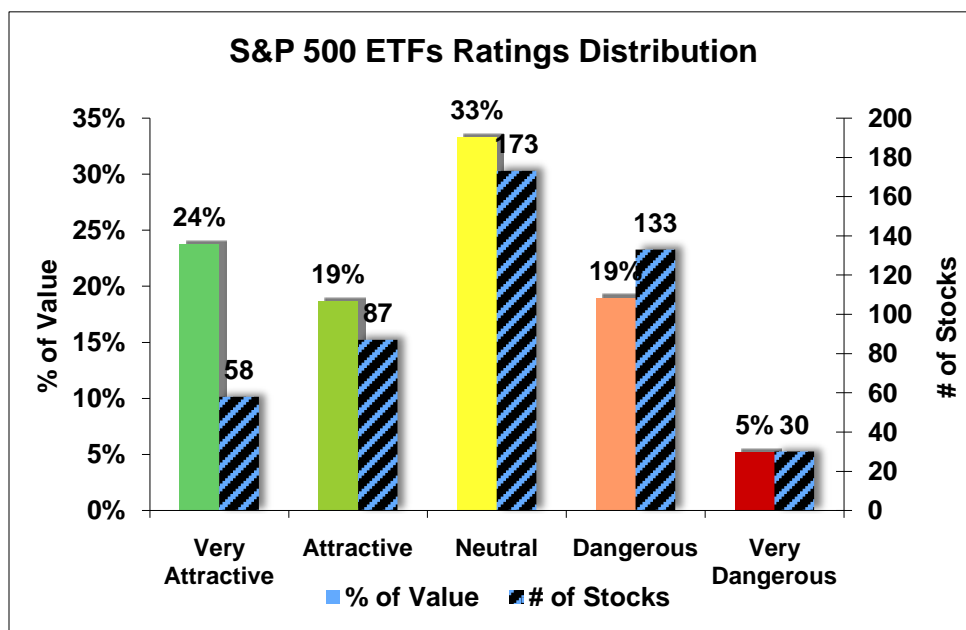
Russell 2000 ETFs allocate capital more effectively than S&P 500 ETFs. Per Figures 5 and 6 below, Russell 2000 ETFs allocate 17% to Attractive-or-better-rated stocks while S&P 500 ETFs allocate 43%. Russell 2000 ETFs also allocate 57% of their values toward Dangerous-or-worse-rated stocks compared to S&P 500 ETFs' Dangerous-or-worse weightings of 24%.

Figure 5: Russell 2000 ETFs – Allocation & Holdings by Risk/Reward Rating



Sources: New Constructs, LLC and company filings

Figure 6: S&P 500 ETFs – Allocation & Holdings by Risk/Reward Rating



Sources: New Constructs, LLC and company filings

Russell 2000 ETFs Overview

Figure 7 lists the top 25 companies in the Russell 2000 by market capitalization representing about 5% of the overall index.

Figure 7: Top 25 Russell 2000 Companies by Market Cap.

Ticker	Company Name	Industry	P/E Ratio	% of Index
ROL	Rollins Inc.	Industrials	34.5	0.2%
BID	Sotheby's	Consumer Discretionary	19.3	0.2%
SEB	Seaboard Corporation	Consumer Staples	10.7	0.2%
CLH	Clean Harbors, Inc.	Industrials	22.4	0.2%
CPX	Complete Production Services, Inc.	Energy	33.9	0.2%
BRY	Berry Petroleum Company	Energy	35.4	0.2%
MMR	McMoRan Exploration Company	Energy	-8.6	0.2%
ROSE	Rosetta Resources, Inc.	Energy	144.4	0.2%
DRQ	Dril-Quip Inc.	Energy	26.9	0.2%
CBL	CBL & Associates Properties, Inc.	Financials	86.8	0.2%
HS	HealthSpring Inc.	Health Care	13.9	0.2%
PMTC	Parametric Technology Corp	Information Technology	113.3	0.2%
KEG	Key Energy Services, Inc.	Energy	33.2	0.2%
DAN	Dana Holding Corp	Consumer Discretionary	-118.5	0.2%
ASNA	Ascena Retail Group, Inc.	Consumer Discretionary	19.7	0.2%
ARUN	Aruba Networks, Inc.	Telecommunication Services	-72.7	0.2%
APAGF	Apco Oil & Gas International, Inc.	Energy	102.5	0.2%
N	NetSuite Inc.	Information Technology	-93.4	0.2%
JKHY	Jack Henry & Associates, Inc.	Information Technology	22.2	0.2%
TEN	Tenneco Inc.	Consumer Discretionary	68.2	0.2%
LUFK	Lufkin Industries, Inc.	Energy	59.7	0.2%
NETL	NetLogic Microsystems, Inc.	Information Technology	-35.3	0.2%
CNQR	Concur Technologies, Inc.	Information Technology	128.4	0.2%
INT	World Fuel Services Corp	Energy	16.1	0.2%
QSII	Quality Systems, Inc.	Information Technology	41.8	0.2%
Total				5.3%

Sources: New Constructs, LLC and company filings

Appendix: Risk/Reward Rating System

Our Risk/Reward Rating System assigns a rating to every stock we cover according to what we believe are the 5 most important criteria for assessing the risk versus reward of stocks. See table that follows for details.

Overall Risk/Reward Ranking	The Overall Risk/Reward Ranking provides a final rating based on the equal-weighted average rating of each criterion.
Very Dangerous	FCF Yield is not included in the average.
Dangerous	FCF Yield is not included in the average.
Neutral	All criteria are equal-weighted in the average calculation.
Attractive	All criteria are equal-weighted in the average calculation.
Very Attractive	All criteria are equal-weighted in the average calculation.

Economic vs Reported Earnings	Rates stocks based on how their Economic Earnings compare to their Reported Earnings. Values based on Latest Fiscal Year.
Very Dangerous	Negative and declining Economic Earnings despite positive and rising Reported Earnings
Dangerous	Same as above except Reported Earnings are not rising or Reported Earnings are not positive
Neutral	Negative Economic and Reported Earnings
Attractive	Economic Earnings are positive
Very Attractive	Economic Earnings are positive and rising

Return on Invested Capital (ROIC)	Rates stocks based on their ROIC. Values based on Latest Fiscal Year.
Bottom Quintile	Very Dangerous = the bottom 20% of Russell 1000 companies
4th Quintile	Dangerous = the bottom 40% of Russell 1000 companies
3rd Quintile	Neutral = the middle 20% of Russell 1000 companies
2nd Quintile	Attractive = the top 40% of Russell 1000 companies
Top Quintile	Very Attractive = the top 20% of Russell 1000 companies

FCF Yield	Rates stocks based on their Free Cash Flow Yield. Values based on Latest Closing Stock price and Latest Fiscal Year.
<-5%	Very Dangerous = less than or equal to -5%
-5%<-1%	Dangerous = more than -5% but less than or equal to -1%
-1%<3%	Neutral = more than -1% but less than or equal to +3%
3%<10%	Attractive = more than +3% but less than or equal to +10%
>10%	Very Attractive = more than +10%

Price-to-EBV Ratio	Rates stocks based on their Price-to-Economic Book Value Ratio. Values based on Latest Closing Stock price and Latest Fiscal Year.
>3.5 or -1>0	Very Dangerous = greater than or equal to 3.5 or less than 0 but greater than -1
2.4>3.5 or <-1	Dangerous = greater than or equal to 2.4 but less than 3.5 and less than or equal to -1
1.6>2.4	Neutral = greater than or equal to 1.6 but less than 2.4
1.1>1.6	Attractive = greater than or equal to 1.1 but less than 1.6
0>1.1	Very Attractive = greater than or equal to 0 but less than 1.1

Growth Appreciation Period (yrs)	Rates stocks based on their Market-Implied Growth Appreciation Period. Values based on Latest Closing Stock price and Default Forecast Scenario.
>50	Very Dangerous = greater than or equal to 50 years
20>50	Dangerous = at least 20 years but less than 50
10>20	Neutral = at least 10 years but less than 20
3>10	Attractive = at least 3 years but less than 10
0>3	Very Attractive = at least 0 years but less than 3

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1. Based on the complete set of financial information available.
2. Standard for all companies.
3. A more accurate representation of the true underlying cash flows of the business.

Additional Information

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