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A Holiday From Commodities

By MURRAY COLEMAN

Investors are pulling out of commodity ETFs, but once the volatility subsides opportunities may await.

Investors rushed out of commodities ETFs last week, pulling more money from them than they had in any previous week over the past seven months.

It's a move that's been building for weeks as a growing chorus of analysts warn that everything from gold to cotton and corn could take a short-term tumble from their record-high price levels.

In fact, the $264.3 million pulled from commodities ETFs in the week ended Wednesday continued a losing streak dating back to early March, reports Lipper. In comparison, commodities mutual funds, less susceptible to trading swings, haven't seen a week of negative flows in nearly five months.

"We're expecting increased volatility in coming weeks," says Jeffrey Kleintop, chief market strategist at LPL Financial in Boston. While Kleintop is betting on a longer-term uptrend in commodities, he thinks that commodities' prospects have stagnated for the short term. A downturn could create opportunities, however. "We're not backing up the truck just yet," he says, "but if prices falter more, it might open some opportunities to reload."

Jerry Slusiewicz, president of Pacific Financial in Laguna Hills, Calif., agrees. "This is a time when investors should be watching for any significant short-term pullbacks to build core positions in commodities," he says. Slusiewicz's firm owns the **iShares Silver ETF** (ticker: SLV) and the **SPDR Gold Trust** (GLD) in its accounts for wealthy individuals and corporate clients. Both ETFs slid early last week after Goldman Sachs downgraded a basket of commodities, but then they rebounded strongly.

That's indicative of a trend: So far, whenever these ETFs have faltered, their descent has been halted quickly by zealous bargain hunters. Last month, after the earthquake and tsunami in Japan, SLV retreated. "But that pullback only lasted four trading days," notes Slusiewicz.

EARLY THIS YEAR, I warned about the need for investors to look underneath exchange-traded funds' hoods, to closely examine the stocks they hold. In a Jan. 31 column headlined **"The Danger Within,"** I spoke with David Trainer, president of New Constructs, a Nashville-based investment research firm that evaluates exchange-traded funds on the strength of their holdings and what weightings they give to the most attractive names.

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In the latest Barron's-Zacks professional stock-picking competition, New Constructs came in second over one year and third over three years. It has consistently done well in the contest over the years.

Last week, New Constructs issued a report identifying the two technology-oriented ETFs that it considers the best at the moment.

The first, **Internet Architecture Holdrs** (IAH), has almost 89% of its portfolio allocated to stocks that Trainer rates Attractive. Perhaps just as significantly, less than 2% of this ETF's holdings are in stocks ranked Neutral, Dangerous or Very Dangerous by New Constructs.

The second exchange-traded tech fund that the Tennessee outfit favors, the **Semiconductor Holdrs** (SMH), has 84% of its portfolio in shares rated Attractive. It also has only 2% of its assets in issues that New Constructs considers Dangerous.

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