"Building a Portfolio for the Next 5 Years"

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Must Own Investment Themes

- Emerging Markets
- Commodities
- Inflation
- Higher Interest Rates
- Water
- Emergence of the Baby Boomer
- Niche Sectors

Emerging Markets

- You want growth?
- Middle class growth
- Commodities
- Beware of the BRICs
- Consider Frontier Markets
- **iShares MSCI Emerging Markets ETF (EEM)**
  - Largest EM ETF with over 800 stocks
  - 46% in BRICs; 0.69% ER
- **Market Vectors Indonesia (IDX)**
  - Fourth most populous country in the world
  - Financial services (29%) and energy (16%)
  - GDP growth estimate of 6.2%
- **Global X Andean 40 ETF (AND)**
  - Chile (49%), Colombia (29%), and Peru (22%)
  - Basic materials and financials make up 50% of ETF

Commodities

- Demand/Supply issue
  - Emerging Markets
- Weak US Dollar
- Diversification is key
  - Metals
    - *Gold (GLD) and Industrial Metals (DBB)*
  - Energy
    - Oil (USL and BNO)
  - Softs
    - JJS
  - Agriculture
    - *DBA*
  - Livestock
    - COW
  - Diversified
    - DBC
    - USCI

Inflation

- A country cannot continue to print money and expect to not deal with inflation in the future
  - M2 Money Supply is high and once the banks start to lend again – inflation will surge
- Inflation is already seen in food and energy prices (but not the government numbers)
- Emerging markets are already dealing with it
- **Guggenheim Timber ETF (CUT)**
  - Composed of companies involved in land, timber, paper & pulp
  - Historically does well during inflationary periods
  - Top holdings include: IP, FBR, MWV; 30% in the US
- **SPDR DB International Government Inflation-Protected Bond ETF (WIP)**
  - 2.8% Dividend Yield
  - UK, France, Turkey, Germany, Israel, etc.

Higher Interest Rates

- With QE2 behind us, artificially held down IR should begin to rise
- Eventually foreign government will demand higher yields
- When money begins to move back into equities, a bond bubble will lead to higher IR
- ***ProShares Short 20+ Year Treasury ETF (TBF)***
  - As IR rise and the price of the long bond falls, TBF will increase in price

Water

- The next great commodity – Blue Gold
  - 1.1 billion people live without clean drinking water
  - In emerging countries nearly 80% of illnesses are related to poor water and sanitation
  - 3,900 children die every day from water-borne diseases
  - EPA estimates water will be the single largest expenditure in the US
  - Less than 15% of China’s 1.3 billion people have access to clean water from a tap
  - Less than 1% of the world’s fresh water or 0.007% of all the water on Earth is readily available for human consumption (WHO)
- Infrastructure
  - **Northwest Pipe (NWPX)**
    - Manufactures large-diameter steel pipes mainly for water supply
    - Forward P/E ratio of 15; Competitor was recently bought
- Land Rights
  - **PICO Holdings (PICO)**
    - One of the largest private land owners in Nevada = water and mineral rights
    - Also owns a water company - Stock has struggle recently

Emergence of the Baby Boomer

- Increased need for health care, vanity, retirement advice, etc.
  - HCP Inc. (HCP)
    - REIT that concentrates on health-related properties
    - 5.1% Dividend Yield
  - Allergan (AGN)
    - Think breast implants and Botox
    - Forward P/E of 20; Great chart
  - NuSkin Enterprises (NUS)
    - Anti-aging products and nutritional products
    - Forward P/E ratio of less than 15
    - Stock is hitting a new all-time high

Niches ETFs

- Offers exposure to sectors previously unavailable to the individual investor
  - Brazil Infrastructure, Small-Cap Agribusiness, etc.
- Adds diversification to a portfolio
- Opportunity to profit from specific themes
- Removes company and country risk

Niche ETFs

- **IQ Global Agribusiness Small-Cap ETF (CROP)**
  - More mouths to feed
  - Emerging market demand
  - Inclement weather
  - Global uprisings
  - Green movement
  - Offers global and small-cap exposure
- **First Trust ISE Cloud Computing ETF (SKYY)**
  - First ETF to offer niche exposure to the sector
  - IBM reported sales increased by 55% in cloud services
  - Lowers overhead & increase productivity
- ***EG Shares Emerging Market Consumer ETF (ECON)***
  - Growing middle class
  - Captures demand within the countries
  - Outperforming EEM (+2.5% vs. -2.5% in 2011)

Preservation of Capital & Above-Average Income

- US Bonds – NO!
  - Rising interest rates
- Corporate Bonds
  - *JNK* and *LQD*
- Municipal Bonds
  - *HYD* and *MUB*

Preservation of Capital & Above-Average Income

- <u>**High Yielding ETFs**</u>
  - ***SPDR Convertible Bond ETF (CWB)***
    - Basket of convertible bonds with heavy exposure to tech (26%)
    - 4.0% Dividend Yield
  - **Guggenheim S&P Global Dividend Opportunities ETF (LVL)**
    - Composed of 100 stocks from around the globe: US (23%), Australia (11%)
    - 5.3% Dividend Yield
  - **ALPS Alerian MLP ETF (AMLP)**
    - Invests in a basket of MLPs
    - 6.2% Dividend Yield
  - **Market Vectors Emerging Markets Local Currency Bond ETF (EMLC)**
    - Direct exposure to local currency bonds; affected by exchange rates
    - 15 different countries and 174 individual bonds
    - 6.1% Dividend Yield

- <u>**High Yielding Stocks**</u>
  - ***Teekay Offshore Partners (TOO)***
    - Marine transportation and storage services to the offshore oil industry
    - 6.6% Dividend Yield
  - **Reynolds American (RAI)**
    - Manufactures and sells cigarettes and tobacco products; Camel, Winston, Kool, etc.
    - 5.7% Dividend Yield

The PFG WatchList Top 5

- **Digital Realty Trust (DLR)**
  - REIT that owns and manages data centers around the globe
  - 4.4% dividend yield
  - Trades with a forward P/E ratio of 14.2
  - An indirect play on cloud computing and the expansion of storage demands

The PFG WatchList Top 5

- **Global X FTSE ASEAN ETF (ASEA)**
  - Invests in Singapore (41%), Malaysia (30%), Indonesia (17%), Thailand (12%), and Philippines (<1%)
  - Region is expected to grow at 5.4% in 2011 and 5.7% in 2012 (IMF)
  - Heavy in the financials (41%) and telecoms (13%)
  - Showing relative strength

The PFG WatchList Top 5

- ***Neogen (NEOG)***
  - Makes products used for food safety and animal health applications
  - Streak of over 70 consecutive profitable quarters
  - In late 2010 it was named one of the 100 fastest growing companies in the world by Forbes
  - A little pricey with a forward P/E ratio of 41
  - Just off an all-time high

The PFG WatchList Top 5

- ***Mining Company of Chile (SQM)***
  - Fertilizer and specialty chemical company
  - World's largest lithium producer
  - International exposure is a bonus
  - Forward P/E ratio of 25
  - Sitting near an all-time high
  - Last quarter: revenue up 24% and net income rose 46%
  - Entry in low $60's

The PFG WatchList Top 5

- **IAC Interactive Corp (IACI)**
  - Internet company that owns a plethora of websites: Ask.com, Match.com, 1800Contractor.com, Gifts.com, Evite.com, and the Daily Beast
  - An indirect play on the buzz of social media companies
  - Trades with a forward P/E ratio of 17
  - Buying opportunity near $37/share

Wrap-Up

- Personalized Portfolio Management Services
- ETF-Only Portfolios
- ETF Bulletin Newsletter – Special Price Today!!
- Niche ETF Investor Free Membership
  - www.NicheETFInvestor.com
- Books
  - “The Next Great Bull Market”
  - “The Swing Trader’s Bible”
- TV
  - Fox News Channel & Fox Business Network

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