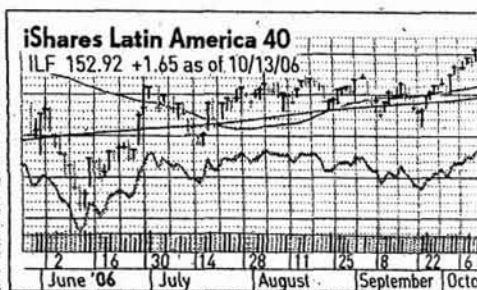


DATA FLOW

Latin America Heats Up

Three of the top-performing exchange traded funds for the past month track south-of-the-border stock indexes. Especially impressive was Mexico. It overcame a sell-off in emerging markets in May and a divisive election. iShares MSCI Mexico gained 10.4% in the past month.



EXCHANGE TRADED

Q&A

Manager Sees Shift To U.S. Stock Indexes

Foreign Exchanges Fading

But Frankle thinks it's too early to move his money; he stays in leading sectors

BY MURRAY COLEMAN
INVESTOR'S BUSINESS DAILY

Neal Frankle likes exchange traded funds better than traditional mutual funds.

The president of Los Angeles-based Wealth Resources Group started using ETFs about four years ago. He doesn't use them exclusively for his high net-worth clients. "But they're my strong preference when building portfolios for someone who would rather own mutual funds instead of stocks," said Frankle, 49.

He admits that investors might do better with individual stocks. "But there's more risk to lose more with stocks rather than ETFs," Frankle said. "The people I work for tend to want to avoid catastrophic mistakes and to grow their money safely."

As a result, he has spent the past several years studying how to apply CAN SLIM stock investing strategies to ETFs.

This year headed into the fourth quarter, Frankle's all-ETF portfolio was up 9.30%. That compared with the S&P 500's 8.53% total return.

To see what he's been doing lately, IBD caught up with him last week to get his take on the market.

IBD: You buy ETFs based on relative price strength, don't you?

Frankle: Yes. But if an ETF has a high relative strength and the market looks weak, I won't invest. Three out of every four stocks move in the general direction of the market. So I want to invest when the odds are in my favor. It's important not to forget about the M (in CAN SLIM).

IBD: How do you judge relative strength?

Frankle: I go to IBD's Daily Graphs at investors.com. Then I look for ETFs with a Relative Strength Rating of at least .70. That's the demarcation for dealing with stocks. Anything above that point leads investors to areas that are stronger. So I've stuck with that level for ETFs as well.

IBD: Isn't relative strength watered down somewhat by a fund's large number of names?

Frankle: The larger the number of holdings, the more difficult it makes it for a fund to beat the overall market. However, once the market has given me a green light, then relative strength still works to give me more insight into top performing areas. It's absolutely correct, though, to keep in mind that relative strength isn't as strong of an indicator with ETFs as with individual stocks.

IBD: What else do you check?

Frankle: I put a lot of importance on whether broad indexes are advancing or declining on volume. I

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Neal Frankle, president, Wealth Resources Group

watch the market leaders and the number of new highs vs. the number of new lows. And I do these things daily.

IBD: What are you finding in the market today?

Frankle: The market has generally been positive. For most of the last year and a half, foreign markets have been strong. But we may be seeing a shift in that pattern. In the past three weeks, international ETFs haven't been gaining ground as much as domestic large-cap funds. It's something I'm weighing. We may be close to making a shift. Our strategy is to be in the strongest parts of the market at any given time. But we don't want to jump the gun early. So we're still about 60% foreign and 40% domestic at this point.

IBD: What foreign ETFs do you like?

Frankle: Our biggest positions are in Vanguard European Stock^{VEK} and iShares MSCI EAFE Index^{EFA}. I tend to stay broadly focused and shy away from country and sector funds. But we've put money into iShares Dow Jones US Utilities^{DU}.

IBD: What other domestic funds do you own?

Frankle: Our largest weighting is in iShares Russell 1000 Value Index^{IVD}. At this moment, large-cap value is strong. But I see signs that trend might be shifting as well. It's a little early in the game, but again it comes down to relative strength. Other funds I'm looking at are iShares Morningstar Large Core Index^{JKD} and iShares Russell 1000 Growth Index^{WV}. I also like iShares S&P 500 Growth Index^{NW}.

IBD: How about smaller-cap funds?

Frankle: The ETFs I like there are iShares S&P SmallCap 600 Value Index^{US} and iShares Russell Mid-cap Index^{WR}. But our portfolio right now is dominated by large-cap ETFs. We have about 8% in the small-cap iShares ETF. We don't have anything in mid caps right now. There are too many stronger areas of the market.

I just don't believe you go out and allocate across the board. You stick to the best parts of the market and keep track of significant changes. That's the best way to play ETFs safely. If you need a hammer, don't bring out a hammer and a screwdriver and a drill. There's a real danger in overdiversification.