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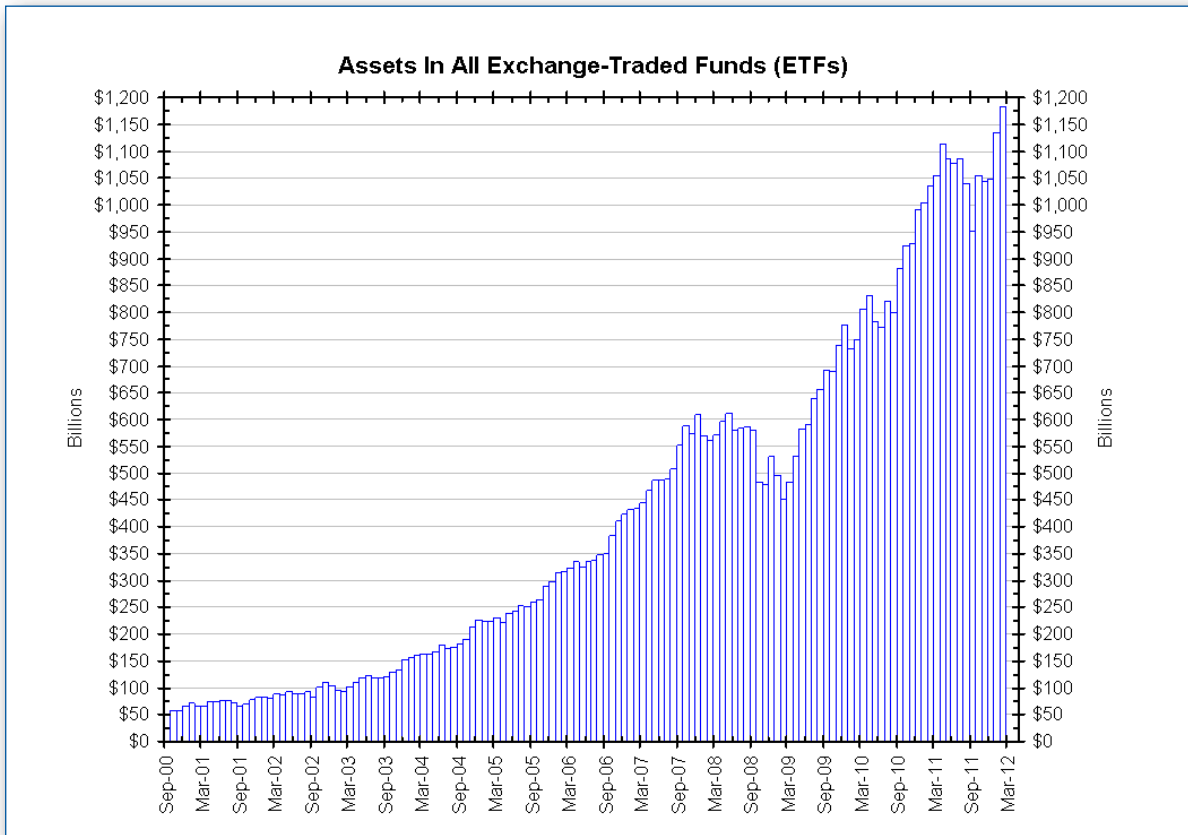
# ETF INCOME SUPERSTARS

Our 3 Favorite ETFs For High Yield Income

A special report by  
The Yield Shark Research Team

**E**xchange-traded funds (ETFs) have exploded in popularity because they charge low fees, provide easy diversification, offer instant liquidity, and keep your tax bill down, since they rarely distribute short-term capital gains.

ETFs have been extremely popular with equity investors. There are a mind-boggling 1,500 ETFs for investors to choose from today, which have attracted \$1.1 trillion of investors' funds (image below from [The Big Picture](#)).



The variety of ETFs is growing, including such diverse options as currencies and commodities, as well as a growing number of income- and dividend-oriented ETFs.

Today, regardless of what your investment objective may be, there is most likely an exchange-traded fund for you. That even applies to income-focused investors.

In fact, the number of ETF income choices is big enough to make your head spin. The ETF Database website tracks the [100 top-yielding ETFs](#), among other useful information. The dividend yield is calculated by dividing the most recent dividend payment by the price of the fund. For our purposes, we are using the latest closing price in the chart below:

| Symbol | Name  | Dividend Yield | AUM       | Avg Volume |
|--------|---|----------------|-----------|------------|
| BZF    | Dryfus Brazilian Real Fund  | 29.05%         | \$78.8 M  | 72,590     |
| BBH    | Market Vectors Biotech ETF  | 23.64%         | \$110.1 M | 42,190     |
| TMV    | Daily 20 Year Plus Treasury Bear 3x Shares                            | 18.33%         | \$347.8 M | 409,616    |
| ICN    | Dryfus Indian Rupee Fund  | 15.61%         | \$16.8 M  | 9,867      |
| BDCL   | E-TRACS 2xLeveraged Long Wells Fargo Business Development Company ETN | 15.59%         | \$41.2 M  | 34,614     |
| TYO    | Daily 7-10 Year Treasury Bear 3x Shares                               | 12.27%         | \$51.0 M  | 16,506     |
| NLR    | Market Vectors Uranium+Nuclear Energy ETF                             | 12.18%         | \$88.8 M  | 46,163     |
| WEP    | MSCI Spain Index Fund   | 11.31%         | \$116.3 M | 254,767    |
| KROO   | IQ Australia Small Cap ETF  | 11.26%         | \$16.3 M  | 5,573      |
| KBWD   | KBW High Dividend Yield Financial Portfolio                           | 10.55%         | \$77.8 M  | 65,749     |
| PBP    | S&P 500 BuyWrite Portfolio  | 10.03%         | \$156.8 M | 110,568    |
| MLPL   | E-TRACS 2x Leveraged Long Alerian MLP Infrastructure Index            | 9.59%          | \$96.5 M  | 35,340     |
| REM    | FTSE NAREIT Mortgage REITs Index Fund                                 | 8.57%          | \$337.2 M | 259,484    |
| AXUT   | MSCI ACWI ex US Utilities Sector Index Fund                           | 8.43%          | \$6.4 M   | 4,753      |
| RWG    | Large-Cap Growth Equity Strategy Fund                                 | 8.27%          | \$7.9 M   | 1,313      |
| PCEF   | CEF Income Composite Portfolio  | 8.25%          | \$278.4 M | 96,660     |
| MORT   | Market Vector Mortgage REIT Income ETF                                | 7.60%          | \$34.2 M  | 14,841     |

But just because an ETF pays a high dividend doesn't make it a good investment. In fact, we think just the opposite: the highest-yielding ETFs are dangerous and to be avoided.

We've culled through the entire list of income-focused ETFs and came up with our three favorite ETFs for income investors.

## INCOME ETF SUPERSTAR #1

### iShares S&P US Preferred Stock Index Fund (PFF)

We all learned about preferred stocks in business classes, but most investors have never owned one. That's a mistake, because preferred stocks are a very productive asset class.

Bank savings accounts pay less than 1%, long-term Treasury bonds pay less than 3%, and intermediate-term corporate bonds barely pay out 4% – so investors have been flocking to preferred stocks. Through the first four months of 2012, investors have poured \$1.5 billion into preferred-stock ETFs.

Preferred stocks are designed to make regular dividend payments (generally quarterly or semiannually), confer no voting rights, and have a senior claim on both assets and dividends over common stock. That preferred payment of dividends ahead of common stock is a major safety net.

Do you know who one of the biggest fans of preferred stocks is? Warren Buffett, who has invested billions of dollars of Berkshire Hathaway assets in preferred stocks over the years.

This superstar iShares ETF is designed to match the price and yield performance of the S&P US Preferred Stock Index. It has a current dividend yield in excess of 6% and a low expense ratio of 0.48%.

## PFF Top Ten Holdings & Weightings\*

- HSBC Hldgs Pfd: 2.59%
- General Mtrs Cv: 2.35%
- Barclays Bank PLC (BCSPRD): 1.64%
- Wells Fargo & Co, San Francisco Ca Pfd: 1.61%
- Citigroup Cap Xii Pfd: 1.52%
- Citigroup Cap Xiii Pfd: 1.52%
- HSBC Hldgs Pfd: 1.47%
- Bank Amer Pfd: 1.43%
- JP Morgan Chase Cap Xxvi Pfd: 1.29%
- GMAC Cap Tr I Pfd: 1.28%

\*As of April 2012

PFF has gained an average of 11.2% annualized over the last three years, and that makes it one of our top income ETF picks.

## INCOME ETF SUPERSTAR #2

### WisdomTree Emerging Markets Equity Income ETF (DEM)

When it comes to fixed-income investing, sometimes it pays to travel abroad.

Emerging markets came out of the financial crisis in better fiscal shape than their developed counterparts. The average debt burden of emerging-market countries is less than 40% of gross domestic product, while developed-market debt has soared to more than 100% of GDP on average. For this reason, emerging-market bonds should be less volatile than those of developed nations.

Inflation seems to be less of a looming burden in most emerging economies, with the exception of India. The IMF predicts that the inflation risk from 2011 in emerging countries will continue to wane throughout this year.

Dividend payouts are higher in emerging markets than the US. The dividend yield for the MSCI Emerging Markets Index is higher than the dividend yield of the S&P 500 and higher than that of any government bond in the Western world.

Lastly, emerging-market stocks and bonds are a hedge on the US dollar, adding portfolio diversification.

Our top international income ETF is the [WisdomTree Emerging Markets Equity Income Index ETF \(DEM\)](#). The stocks in this fund are selected from the top 30% of another Index (the WisdomTree Emerging Markets Dividend Index) and then weighted by dividend yield.

| Top Holdings                      |  | As of 05/03/2012 |
|-----------------------------------|--|------------------|
| Name                              |  | Weight           |
| 1. Taiwan Semiconductor Manufactu |  | 4.40%            |
| 2. Cia de Bebidas das Americas    |  | 3.50%            |
| 3. Kumba Iron Ore Ltd             |  | 2.37%            |
| 4. Malayan Banking Bhd            |  | 2.33%            |
| 5. Banco do Brasil SA             |  | 2.24%            |
| 6. Banco Santander Brasil SA/Braz |  | 2.17%            |
| 7. Bank of China Ltd              |  | 2.09%            |
| 8. Cielo SA                       |  | 2.05%            |
| 9. Advanced Info Service PCL      |  | 1.88%            |
| 10. Chunghwa Telecom Co Ltd       |  | 1.83%            |

Top sector weightings include financials (26%), followed by telecom (19%) and information technology (13%).

In terms of country allocations, Brazil and Taiwan at the top, both at 22%, followed by South Africa (10%), Malaysia (9%), and Chile (5%).

DEM has a dividend yield of just a tad over 4% and pays out those dividends on a quarterly basis, as its [distribution history](#) shows.

| Ex-Dividend Date | Record Date | Payable Date | Ordinary Income | Short Term Capital Gains | Long Term Capital Gains | Return of Capital | Total Distribution |
|------------------|-------------|--------------|-----------------|--------------------------|-------------------------|-------------------|--------------------|
| 03/26/2012       | 03/28/2012  | 03/30/2012   | \$0.20218       | \$0.00000                | \$0.00000               | \$0.00000         | \$0.20218          |
| 12/21/2011       | 12/23/2011  | 12/28/2011   | \$0.24953       | \$0.00000                | \$0.00000               | \$0.00000         | \$0.24953          |
| 09/26/2011       | 09/28/2011  | 09/30/2011   | \$0.93257       | \$0.00000                | \$0.00000               | \$0.00000         | \$0.93257          |
| 06/22/2011       | 06/24/2011  | 06/28/2011   | \$0.92280       | \$0.00000                | \$0.00000               | \$0.00000         | \$0.92280          |
| 03/21/2011       | 03/23/2011  | 03/25/2011   | \$0.17240       | \$0.00000                | \$0.00000               | \$0.00000         | \$0.17240          |
| 12/22/2010       | 12/27/2010  | 12/29/2010   | \$0.36920       | \$0.00000                | \$0.00000               | \$0.00000         | \$0.36920          |
| 09/20/2010       | 09/22/2010  | 09/24/2010   | \$0.64591       | \$0.00000                | \$0.00000               | \$0.00000         | \$0.64591          |
| 06/28/2010       | 06/30/2010  | 07/02/2010   | \$0.76075       | \$0.00000                | \$0.00000               | \$0.00000         | \$0.76075          |
| 03/29/2010       | 03/31/2010  | 04/05/2010   | \$0.16051       | \$0.00000                | \$0.00000               | \$0.00000         | \$0.16051          |
| 12/21/2009       | 12/23/2009  | 12/28/2009   | \$0.16883       | \$0.00000                | \$0.00000               | \$0.00000         | \$0.16883          |
| 09/21/2009       | 09/23/2009  | 09/25/2009   | \$0.63783       | \$0.00000                | \$0.00000               | \$0.00000         | \$0.63783          |
| 06/22/2009       | 06/24/2009  | 06/26/2009   | \$0.59791       | \$0.00000                | \$0.00000               | \$0.00000         | \$0.59791          |
| 03/23/2009       | 03/25/2009  | 03/27/2009   | \$0.05412       | \$0.00000                | \$0.00000               | \$0.00000         | \$0.05412          |
| 12/22/2008       | 12/24/2008  | 12/26/2008   | \$1.90198       | \$0.00000                | \$0.00000               | \$0.00000         | \$1.90198          |
| 12/17/2007       | 12/19/2007  | 12/21/2007   | \$0.48805       | \$0.00000                | \$0.00000               | \$0.00000         | \$0.48805          |

Over the last three years, this superstar ETF has returned an average annual compounded return of 29% – a solid performance.

## INCOME ETF SUPERSTAR #3

### PowerShares High Yield Dividend Achievers ETF (PEY)

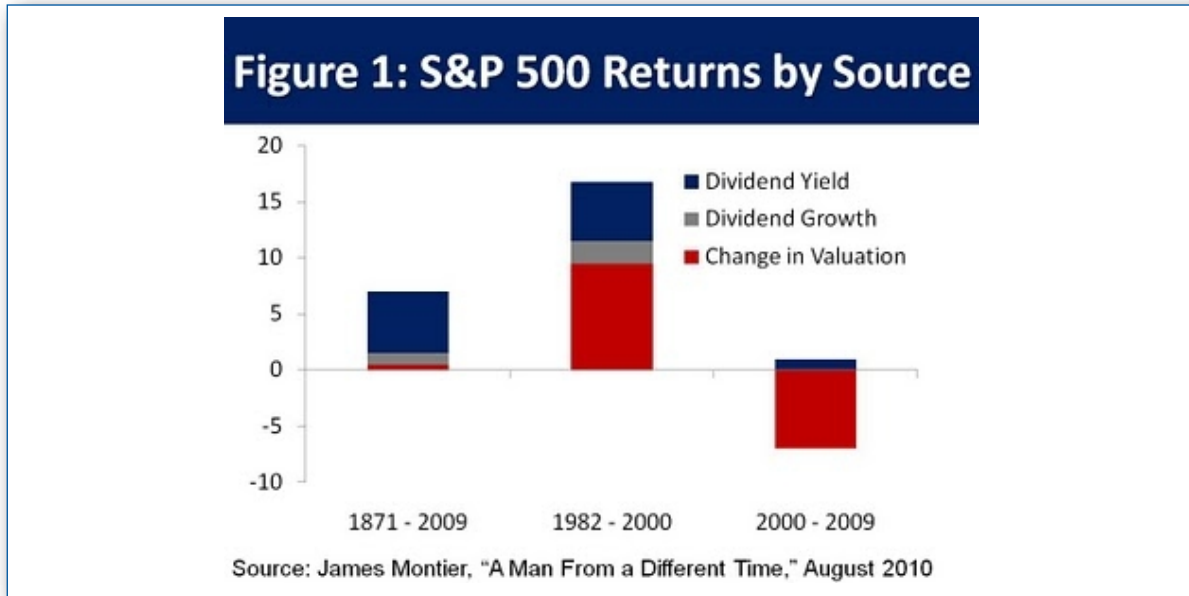
Lots of companies pay dividends, but a select handful of companies have a spectacular history of growing their dividends year after year after year. These “dividend achievers” are in a special class of their own.

“Dividend achievers” history traces back to 1979, when Moody’s Investor Service developed a proprietary model to identify best-of-breed dividend-paying companies.

#### Why do dividends matter?

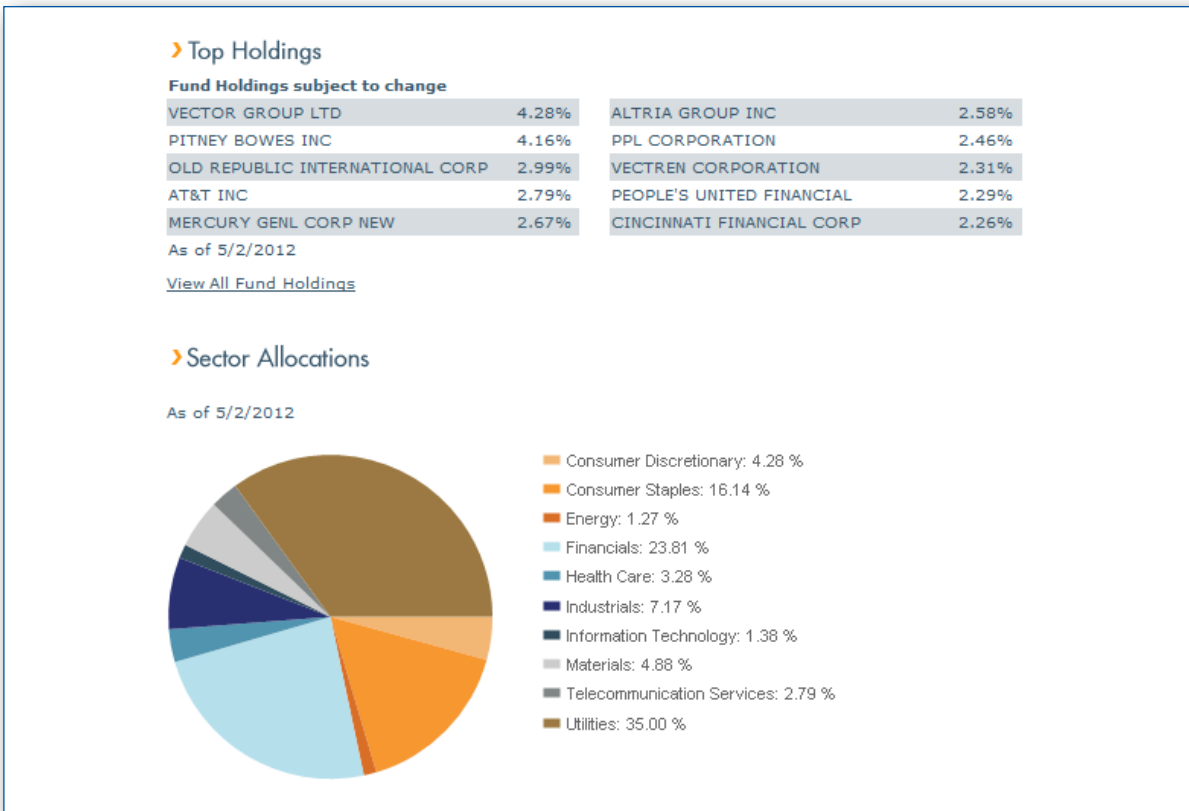
- Companies that pay regular dividends tend to be in better financial health and produce sustained earnings and revenue growth.
- Dividends help identify well-managed companies; every dividend declaration represents a promise by management and a vote of confidence by the board of directors in the company’s leadership.
- Companies that consistently raise their dividend payouts also raise the bar on their own performance expectations.
- Shares of dividend-paying companies possess built-in value that makes them generally more resilient in down markets, with solid appreciation potential during earnings-driven market upturns – and with less price volatility.

Historically, dividends have been a significant contributor to overall stock market returns, as this chart from James Montier shows.



Our top pick for dividend achievers is the PowerShares High Yield Dividend Achievers ETF.

This superstar ETF is based on the Mergent Dividend Achievers 50 Index, which holds the 50 highest-yielding stocks of the Mergent Dividend Index, which are selected on the basis of dividend yield and consistent growth in dividends. Here's an overview, taken from [Invesco PowerShares](#):



The result is a fund of high-dividend stocks with a consistent history of dividend growth. This includes both blue chip stocks and small companies that pay out a high proportion of their profits as dividends.

PEY has a dividend yield just shy of 4% and has paid out those dividends on a regular monthly basis. Plus, it has delivered a 26% total return over the last three years, putting it in our top three income ETFs.

**> Distributions**

| <b>Ex-Date</b> | <b>Record Date</b> | <b>Pay Date</b> | <b>\$ / Share</b> | <b>Ordinary Income</b> |
|----------------|--------------------|-----------------|-------------------|------------------------|
| 4/13/2012      | 4/17/2012          | 4/30/2012       | 0.02042           | 0.02042                |
| 3/15/2012      | 3/19/2012          | 3/30/2012       | 0.03089           | 0.03089                |
| 2/15/2012      | 2/17/2012          | 2/29/2012       | 0.03086           | 0.03086                |
| 1/13/2012      | 1/18/2012          | 1/31/2012       | 0.02886           | 0.02886                |
| 12/15/2011     | 12/19/2011         | 12/30/2011      | 0.03511           | 0.03511                |
| 11/15/2011     | 11/17/2011         | 11/30/2011      | 0.02928           | 0.02928                |
| 10/14/2011     | 10/18/2011         | 10/31/2011      | 0.02779           | 0.02779                |
| 9/15/2011      | 9/19/2011          | 9/30/2011       | 0.02772           | 0.02772                |
| 8/15/2011      | 8/17/2011          | 8/31/2011       | 0.02802           | 0.02802                |
| 7/15/2011      | 7/19/2011          | 7/29/2011       | 0.02764           | 0.02764                |
| 6/15/2011      | 6/17/2011          | 6/30/2011       | 0.02777           | 0.02777                |
| 5/13/2011      | 5/17/2011          | 5/31/2011       | 0.02794           | 0.02794                |
| 4/15/2011      | 4/19/2011          | 4/29/2011       | 0.02748           | 0.02748                |
| 3/15/2011      | 3/17/2011          | 3/31/2011       | 0.02787           | 0.02787                |
| 2/15/2011      | 2/17/2011          | 2/28/2011       | 0.02717           | 0.02717                |
| 1/14/2011      | 1/19/2011          | 1/31/2011       | 0.02849           | 0.02849                |



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