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Home > An Income Strategy for Emerging Markets [№] (EEM, HILO)

An Income Strategy for Emerging Markets (EEM, HILO)

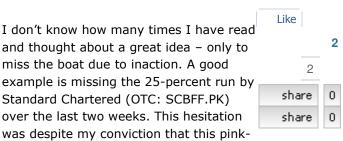


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October 20th, 2011

I don't know how many times I have read and thought about a great idea - only to miss the boat due to inaction. A good example is missing the 25-percent run by Standard Chartered (OTC: SCBFF.PK)

over the last two weeks. This hesitation



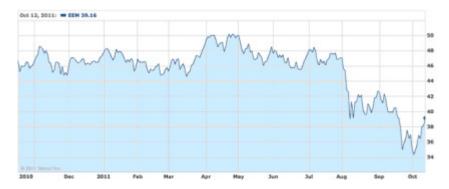
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sheet, blue-chip quality bank (nine consecutive years of up revenue, profits and dividends) was undervalued and poised for a rebound after pulling back 37 percent since May 2011. A habit of delay can be deadly. The key to breaking it is to take that first small step.

Let's apply that to emerging markets, which have certainly taken it on the chin lately. During the last three months, the MSCI Emerging Markets Index (NYSE:EEM) is down a hefty 22 percent.

The pullback and volatility are scaring off investors just when they should be getting interested, since these markets are dirt cheap - trading around book value with a dividend yield of five percent.

In addition, as you can see from the chart below, emerging markets are beginning to trend up.



While we wait to see if this favorable trend holds, here's an easy way for you to make a move.

Why not begin with a basket of emerging market a companies that have rich dividends and a history of being less volatile?

Consider This Bushel of Dividends

This is the recipe for the EGShares Emerging Markets High Income Low Beta ETF (NYSE:HILO). HILO is a basket of 30 companies with a dividend yield of 5.5 percent. It's well diversified, with 15 percent exposure to wireless telecom and 14 percent to diversified telecom. Oil and gas, transportation and power producers account for 22 percent, and auto and real estate together make up 10 percent of the basket. These are big companies with an average market value of \$11.5 billion.

HILO is a passive ETF designed to provide high income and to be significantly less volatile than the MSCI Emerging Markets Index through the utilization of low beta stocks. HILO is broad based, with exposure to multiple countries and sectors with quarterly income distributions.

No one company can make up more than five percent of the basket, and country exposure is capped at 25 percent. There are no games to produce superior income – HILO doesn't use any options, derivatives, or leverage in attaining its income distribution.

The country breakdown and the top 10 positions are listed below.

Index Country Breakdown

(As of 8/4/2011)	Country	Weights (%)
	Malaysia	18.00
	South Africa	17.27
	Brazil	13.41
	China	12.66
	Thailand	8.85
	India	7.60
	Mexico	7.05
	Philippines	4.88
	Morocco	4.63
	Turkey	3.66

Top 10 Holdings (Holdings are subject to change.)

(As of 8/4/2011)	Company (Ticker)	Weights (%)
	Total Access Communication PLC	5.34
	Telecomunicacoes de Sao Paulo SA	5.11
	Redefine Properties Ltd	4.96
	Philippine Long Distance Telephone Co	4.88
	Maroc Telecom SA	4.63
	DiGi.Com Bhd	4.55
	Telefonos de Mexico SAB de CV	4.16
	Cia Energetica de Minas Gerais	3.76
	Nortel Networks Netas Telekomunikasyon	3.66
	HAP Seng Consolidated Bhd	3.64

It might surprise you to see Malaysia leading the list, but I highlighted in past articles Malaysia's strengths as a solid middle-income country of 27 million, rich in natural resources, with a strong financial sector and currency.

Co

This profile differs from the MSCI Emerging Market Index, which has Taiwan, Brazil, China, South Korea and South Africa together making up 70 percent of its basket.

Consider HILO if you're trying to get back into the emerging market game. It offers lower volatility and higher income than other emerging markets ETFs.

Good investing,

by Carl Delfeld, Investment U Senior Analyst

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- 2. Emerging Global To Begin Trading The EGShares Emerging Markets High Income Low Beta ETF (HILO) Thursday August 4
- 3. EGSHARES ANNOUNCES SUCCESSFUL LAUNCH OF EMERGING MARKETS HIGH INCOME/LOW BETA (TICKER: HILO) EQUITY ETF ON NYSE ARCA
- **4.** Emerging-Market ETFs Hit Historic Lows: Don't Miss Your Chance To Load Up (EEM, ECH, EWY, EWS, HILO)
- 5. Russell Files For Russell Emerging Markets Fixed Income ETF

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