ETF INVESTING

Planned ETF to fly stealth mission

Claymore funds designed to target undercovered stocks, insider buying

By John Spence, MarketWatch
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BOSTON (MarketWatch) -- Another upstart is planning to list exchange-traded funds that push the line between active and passive management, including a "stealth" portfolio that invests in stocks largely ignored by Wall Street analysts and unloved by investors.

Claymore Advisors LLC, a subsidiary of Claymore Group Inc., has filed its first five ETFs with regulators to launch on the American Stock Exchange, pending regulatory approval.

The planned Claymore-Sabrient Stealth Portfolio ETF is designed to follow an index designed by investment-research firm Sabrient Systems LLC that tracks 250 U.S.-traded stocks and ADRs with little or no analyst coverage, according to regulatory documents.

The overall strategy is "to actively represent a group of stocks that are 'flying under the radar screen' of Wall Street's analysts, but which have displayed robust growth characteristics," a filing said. The ETF will seek to outperform, adjusted for risk, the Russell 2000 Index (RUT **714.39**, **+5.31**, **+0.7%**) and other small-cap benchmarks.

Scott Martindale, senior managing director at Sabrient, said there is substantial research in the academic world about the "neglected-stock effect."

"Stocks that are not heavily followed and not widely owned tend to be available at a lower price and outperform over time," he noted.

Most of the stocks will be culled from the small and microcap range with market capitalizations under $1 billion, according to filings. Martindale said companies in the index will have either one or no analysts covering the stock.

Aside from the so-called stealth fund, Claymore has filed a fund targeting insider buying and analyst upgrades, an ETF that shifts between sectors, a dividend portfolio and an emerging-markets offering tracking Brazil, Russia, India and China.

Lisle, Ill.-based Claymore already manages closed-end funds, unit investment trusts, mutual funds and separate accounts.

One of the ETF in the works called Claymore-Sabrient Insider Sentiment Portfolio intends to hold a basket of 50 companies compiled by Sabrient "reflecting favorable corporate insider buying trends and Wall Street analyst upgrades" with an eye on topping the S&P 500 (SPX **1,272.52**, **+5.18**, **+0.4%**) and other broad-market indexes, according to filings.

"We're looking for positive sentiment on a stock by the people closest to it -- the insiders who work within the company and their buying trends, and the analysts who follow the company," said Sabrient's Martindale. "Our work has shown these two factors seem to be a good predictor of future performance."

A spokesman for Claymore declined to comment on the ETFs in registration, citing a Securities and Exchange Commission quiet period. Fees for the ETFs have not yet been determined.

Most of the early popular ETFs such as SPDR 500 Trust "Spiders" (SPY**127.41**, **+0.56**, **+0.4%**) and Dow Jones Industrial "Diamonds" (DIA **111.47**, **+0.32**, **+0.3%**) tracked indexes that simply weighted companies by their market capitalization, but the recent trend is to "fundamental" or "intelligent" indexes that attempt to supply higher returns.

Sectors, hogs and BRICs
Claymore has tapped another market think tank, Zacks Investment Research, for the indexes behind two funds in registration that also seek to provide market-beating performance. Zacks is the benchmark provider for existing ETFs such as PowerShares Zacks Micro Cap (PZI **16.16**, **+0.15**, **+0.9%**) and PowerShares Zacks Small Cap (PZJ **24.40**, **+0.15**, **+0.6%**) .

The planned Claymore-Zacks Sector Rotation Portfolio will hold 100 stocks, while the index is programmed to overweight outperforming sectors in advance.

Zacks breaks the stock market into 16 sectors such as consumer staples, basic materials, finance, utilities and other industries. The weighting for any one sector can range between zero and 45% of the index, according to filings.

The methodology "strives to overweight cyclical sectors prior to anticipated periods of economic expansion and overweight noncyclical sectors prior to anticipated periods of economic contraction," according to documents registered with the SEC.
Another Claymore ETF in registration seeks to cash in on the dividend trend. The Claymore-Zacks Yield Hog Portfolio will focus on 125 to 150 companies with potentially high income and superior risk-return profiles. The index isn't confined to common stocks and can also include real estate investment trusts, master limited partnerships and closed-end funds, according to the initial prospectus.

If approved, the ETF will square off against other dividend-oriented ETFs such as iShares Dow Jones Select Dividend (DVY **63.69**, **+0.14**, **+0.2%**) , WisdomTree Total Dividend (DTD **51.58**, **-0.14**, **-0.3%**) , PowerShares HighYield Dividend Achievers (PEY **14.91**, **+0.03**, **+0.2%**) , SPDR Dividend ETF (SDY **56.00**, **+0.15**, **+0.3%**) and Vanguard Dividend Appreciation ETF (VIG **0.00**, **0.00**, **0.0%**) .

Finally, Claymore is readying a BRIC ETF -- as emerging-markets funds that specialize in Brazil, Russia, India and China are known -- tied to an index managed by Bank of New York Co. (BK **32.38**, **+0.05**, **+0.2%**) .

Several fund companies have launched BRIC funds, a term first made popular by a 2003 Goldman Sachs Group Inc. (GS **148.67**, **-0.18**, **-0.1%**) report, in recent years as investors have piled money into outperforming emerging markets. And several index managers such as Standard & Poor's, Dow Jones & Co. (DJ **34.91**, **+0.60**, **+1.7%**) and Morgan Stanley Capital International have recently introduced BRIC indexes, which may signal more upcoming ETFs.

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