HIGH BETA OR LOW VOL? WHY NOT BOTH

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For the past three years, low volatility ETFs has been in vogue. For example, since launching in May of 2011, PowerShares S&P 500 Low Volatility (SPLV 34 Overweight) climbed to more than $4.5 billion in assets as investors expressed a desire to participate in the U.S. market while at the same time trying to reduce risk. But while S&P Capital IQ sees the merits of low volatility portfolios, we also note that some investors are comfortable with occasionally increasing their risk profile. Fortunately, for this group, there are also some ETFs that offer attractively valued stocks at a modest cost along with higher risk.

Indeed, Lunt Capital, a Utah-based ETF asset manager, runs an ETF-only global strategy that focuses on both the low- volatility and high-beta ETFs from PowerShares. Lunt's tactical approach involves two primary steps. The general aim is to have one-third of assets in U.S. equities, one-third in developed international equities, and one-third in emerging markets. However, on a quarterly basis, Lunt tilts the strategy toward a favored geography and away from a least favored one. Since the beginning of April 2014, the strategy had relatively high exposure to the U.S., relatively low exposure to developed international markets, and neutral exposure to emerging markets.

On a monthly basis, the asset manager determines whether to focus on the low-volatility or high-beta ETFs tied to each of those geographies. This is done using a risk-adjusted relative strength approach, so the strategy will shift from low-volatility to high-beta ETFs (or vice versa) when management believes the opportunities are better in one approach or another.

Ticker	Exchange Traded Fund
EEHB	POWERSHARES S&P EMERGING MARKETS HIGH BETA
IDLV	POWERSHARES S&P INTERNATIONAL DEVELOPED LOW VOLATILITY
SPHB	POWERSHARES S&P 500 HIGH BETA

John Lunt, president of Lunt Capital, noted in an early August interview with S&P Capital IQ that there is huge disparity in returns between low-volatility and high-beta products. However, the key to the firm's relative strength approach relies on identifying a trend and then acting on it.

In early August, Lunt sold its exposure in PowerShares S&P Emerging Markets Low Volatility (EELV 29 Marketweight) and purchased PowerShares S&P Emerging Markets High Beta (EEHB 24 Overweight). On a country basis, EEHB's largest

exposure was to Turkey, South Africa, and China, while EELV was focused on Taiwan, Malaysia, and South Korea. While both emerging market ETFs offer significant financials exposure, materials and industrials are well represented in EEHB, whereas EELV currently has more telecom services constituents. These ETFs are rebalanced on a quarterly basis and so the exposures can and will shift after evaluating the most (or least) volatile stocks in the prior 12 months. As noted, there has been a huge spread between the performance of these two emerging market ETFs. Year to date through August 8, EEHB rose 14%, much stronger than the 3.8% increase in EELV that was in the Lunt strategy during the month of July.

Meanwhile, in July, PowerShares S&P 500 High Beta (SPHB 33 Marketweight) replaced SPLV, which had been in the strategy for the prior three months. SPHB also currently has high stakes in financials stocks, as well as energy and consumer discretionary issues; SPLV is more weighted toward utilities and consumer staples. Overall, the stocks that make up SPHB are considered undervalued according to S&P Capital IQ research though, not surprisingly, have elevated risk profiles. The ETF also ranks favorably to S&P Capital IQ for its low expense ratio and tight bid/ask spread. Year to date, SPHB rose 6.7%, much higher than SPLV's 5.1% gain.

S&P Capital IQ provides research and rankings on approximately 800 equity ETFs, based on a combination of proprietary holdings-based research and relevant performance and cost factor metrics. ETFs that earn a top ranking of overweight do so for having a number of favorable attributes, in our opinion.

The third, smaller ETF position for Lunt is in PowerShares S&P International Developed Low Volatility (IDLV 33 Marketweight), which rose 5.2% in 2014, ahead of the 2% gain achieved by PowerShares S&P International Developed High Beta (IDHB 31 Underweight). IDLV's largest country exposure is to Canada, Australia, and Singapore, unlike IDLV with significant stakes in Japan and Sweden From a sector perspective, this ETF is heavily weighted toward financials and consumer staples. IDLV has been in the Lunt strategy since May 2014.

To learn more about S&P Capital IQ's views on these low-volatility and high-beta ETFs, please see our related research on this and other platforms. To learn more about Lunt's High Beta Low Volatility Rotation Portfolio visit http://www.luntcapital.com/

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ETFs may not be appropriate for all investors. To determine if this ETF is an appropriate investment for you, carefully consider the ETF's investment objectives, risk factors and charges and expenses before investing. This and other information can be found in the ETF's prospectus.

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