

## S&P 500 Index ETFs

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- We recommend investors buy only the Very Attractive and Attractive stocks in the S&P 500, not an S&P 500 ETF.
- S&P 500 ETFs have Neutral Overall Risk/Reward Ratings because the index offers upside potential that is fairly balanced with downside risk.
- This research enables investors to analyze funds as they analyze stocks.
- We offer custom and enhanced ETFs based on our top-ranked stock rating system.
- Our analysis is based on aggregation of models for companies in the S&P 500 and weighted according to the ETFs' allocations to those companies.
- We offer individual ETF reports on 400+ ETFs.

**Figure 1: New Constructs' Risk/Reward Rating - S&P 500 Index ETFs**

Overall Risk/Reward Rating	Quality of Earnings		Valuation		
	Econ v Reported Earnings	ROIC	FCF Yield	Price-to-EBV	GAP (yrs)
Very Dangerous	Misleading Trend	Bottom Quintile	<-5%	>3.5 or -1<0	More than 50
Dangerous	False Positive	4th Quintile	-5%<-1%	2.4<3.5 or <-1	20<50
Neutral	Neutral EE	3rd Quintile	-1%<3%	1.6<2.4	10<20
Attractive	Positive EE	2nd Quintile	3%<10%	1.1<1.6	3<10
Very Attractive	Rising EE	Top Quintile	>10%	0<1.1	Less than 3

Market-Weighted Avg	n/a	18.4%	2.1%	2.0	22
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\* % may not add up to 100% due to the exclusion of cash and holdings not in our coverage universe.

Sources: New Constructs, LLC and company filings

## S&P 500 ETF Overview

There are currently 6 S&P 500 ETFs with an average expense ratio of 0.1% and over \$126 billion in assets. These ETFs have nearly identical holdings and weightings. The Risk/Reward ratings and weighted-average values in this report apply to each of these ETFs.

**Figure 2: Top 6 U.S. Equity S&P 500 ETFs by Market Cap**

ETF Symbol	ETF Name	Expense Ratio	Exposure	Index	Market cap
SPY	SPDR S&P 500	0.1%	Long	S&P 500	\$95,196,950,042
IVV	iShares S&P 500 Index Fund	0.1%	Long	S&P 500	\$27,585,112,000
SSO	ProShares Ultra S&P500	1.0%	Double Long	S&P 500	\$1,571,400,000
VOO	Vanguard S&P 500 ETF	0.1%	Long	S&P 500	\$1,338,542,687
UPRO	ProShares UltraPro S&P 500	1.0%	Triple Long	S&P 500	\$262,548,000
RSU	Rydex 2x S&P 500 ETF	0.7%	Double Long	S&P 500	\$89,800,090

Sources: New Constructs, LLC

For a detailed description of an individual ETF's predictive ratings, purchase an [Individual ETF Report](#) for any of the 400+ ETF's we cover. Sample reports are available [here](#).

## Methodology

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**Our Risk/Reward ratings have a solid track record of outperformance for investors.**

**[Barron's ranked us #1 for stock-picking.](#)**

**Custom ETFs: [Contact us](#) for best-of-breed and enhanced ETF products for a particular sector or index.**

This report offers recommendations on S&P 500 ETFs and benchmarks for (1) investors considering buying S&P 500 ETFs and for (2) comparing individual ETFs to the Russell 2000 index. Our analysis is based on aggregating results from our models on each of the companies included in the S&P 500 (481 companies) based on data as of July 12, 2011<sup>1</sup>. We aggregate results for the ETFs in the same way the ETFs are designed. Our goal is to empower investors to analyze ETFs in the same way they analyze individual stocks.

To make an informed ETF investment decision, investors must consider the ETF's investment merit. An ETF's investment merit is determined by the quality of the ETF's holdings. We apply our stock rating system to each ETF's holdings to determine its investment merit.

Given the [success](#) of our rating system for individual stocks, we believe its application to groups of stocks (i.e. ETFs and funds) helps investors make more informed ETF and mutual fund buying decisions. Barron's featured our uniquely predictive ETF research in "[The Danger Within](#)".

## Recommendations Summary

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### **If you require exposure to the S&P 500:**

We recommend investors buy only the Very Attractive and Attractive-rated stocks in the S&P 500 as opposed to an S&P 500 ETF. Per [Figure 5](#) below, S&P 500 ETFs allocate 57% of their values to holdings in Neutral-or-worse-rated stocks. Please contact us if you would like access to an ETF of only the Very Attractive and Attractive-rated stocks for the S&P 500 or any other ETF<sup>2</sup>.

### **If you require exposure to a sector ETF:**

We recommend investors review our [Sector ETF Roadmap](#) report or our [10 sector ETF reports](#), beginning with our Information Technology and Consumer Staples sector reports, which are the only sectors to earn an Attractive Overall Risk/Reward rating.

### **If you require exposure to a market ETF:**

Investors seeking diversification with a single position or investors looking to buy a market ETF should consider an S&P 500 ETF over a Russell 2000 ETF. See the next section below, which compares S&P 500 ETFs to Russell 2000 ETFs.

### **If you are looking for exposure to the best stocks in the market:**

We recommend you buy our [Most Attractive Stocks](#).

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<sup>1</sup> For an explanation of the merits of using market-weighted averages in aggregation analysis instead of aggregate values, see Jeremy Siegel's WSJ article "[The S&P Gets Its Earnings Wrong](#)."

<sup>2</sup> We offer custom aggregation reports with our ratings for any ETF, mutual fund, or portfolio. We help improve your portfolio's ratings by overweight stocks with Attractive ratings and underweighting stocks with Dangerous ratings. [Contact us](#) for more information.

**Market ETF Benchmark**

Click [here](#) for more info on risk/reward rating system and our approach to equity research.

**Ratings comparison**

S&P 500 ETFs outperform Russell 2000 ETFs in valuation ratings. S&P 500 ETFs have Price-to-EBVs of 2.0, earning them Neutral ratings, and GAPs of 22 years compared to Russell 2000 ETFs' Very Dangerous Price-to-EBVs of 4.2 and GAPs of 53 years.

S&P 500 ETFs also outperform Russell 2000 ETFs in quality of earnings ratings. S&P 500 ETFs' ROICs of 18.4% place them in the top quintile while Russell 2000 ETFs' ROIC of 8.7% place them in the 3<sup>rd</sup> quintile.

**Figure 3: S&P 500 ETFs – Risk/Reward Rating**

Overall Risk/Reward Rating	Quality of Earnings		Valuation		
	Econ v Reported Earnings	ROIC	FCF Yield	Price-to-EBV	GAP (yrs)
Very Dangerous	Misleading Trend	Bottom Quintile	<-5%	>3.5 or -1<0	More than 50
Dangerous	False Positive	4th Quintile	-5%<-1%	2.4<3.5 or <-1	20<50
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Very Attractive	Rising EE	Top Quintile	>10%	0<1.1	Less than 3
Market-Weighted Avg	n/a	18.4%	2.1%	2.0	22

Sources: New Constructs, LLC and company filings

**Figure 4: Russell 2000 ETFs – Risk/Reward Rating**

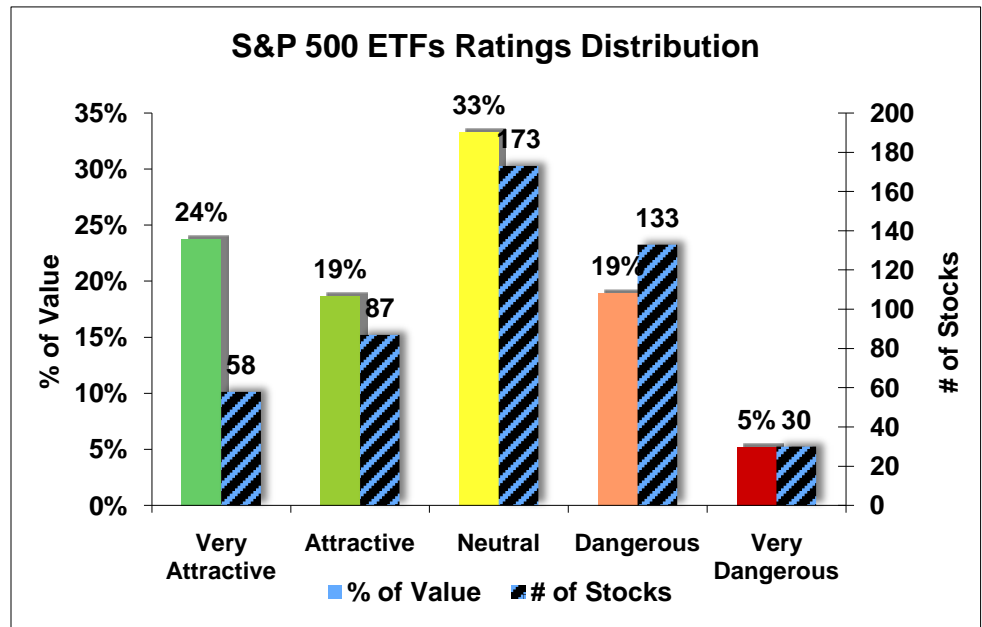
Overall Risk/Reward Rating	Quality of Earnings		Valuation		
	Econ v Reported Earnings (bn)	ROIC	FCF Yield	Price-to-EBV	GAP (yrs)
Very Dangerous	Misleading Trend	Bottom Quintile	<-5%	>3.5 or -1<0	More than 50
Dangerous	False Positive	4th Quintile	-5%<-1%	2.4<3.5 or <-1	20<50
Neutral	Neutral EE	3rd Quintile	-1%<3%	1.6<2.4	10<20
Attractive	Positive EE	2nd Quintile	3%<10%	1.1<1.6	3<10
Very Attractive	Rising EE	Top Quintile	>10%	0<1.1	Less than 3
Market-Weighted Avg	n/a	8.7%	-1.2%	4.2	53

Sources: New Constructs, LLC and company filings

**Allocation Comparison**

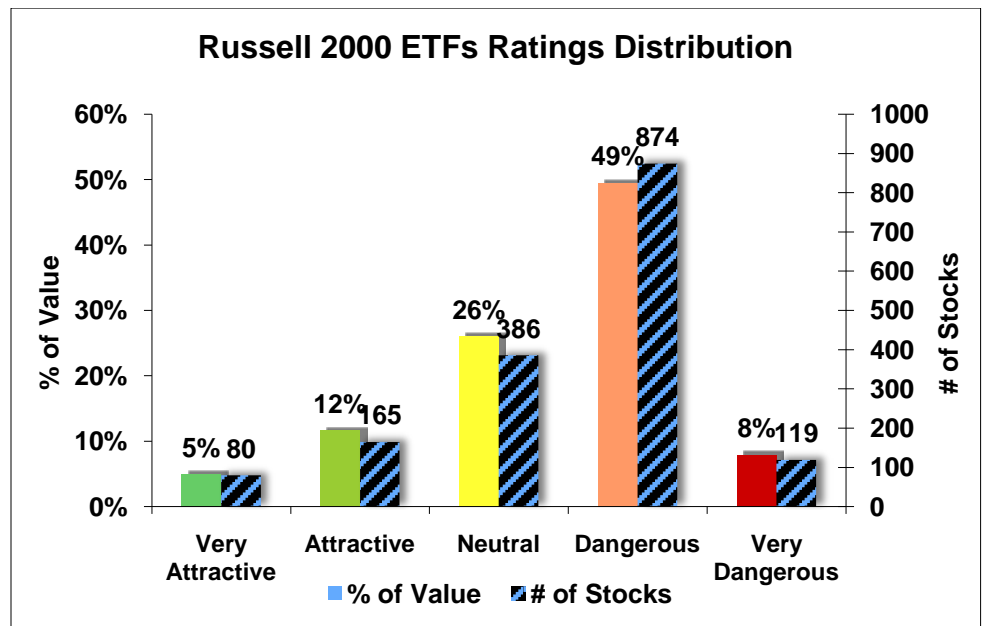
S&P 500 ETFs allocate capital more effectively than the Russell 2000 ETFs. Per Figures 5 and 6 below, S&P 500 ETFs allocate 43% of their values to Attractive-or-better-rated stocks while Russell 2000 ETFs allocate only 17%. S&P 500 ETFs also allocate 24% of their values toward Dangerous-or-worse-rated stocks compared to Russell 2000 ETFs' Dangerous-or-worse weightings of 57%.

Figure 5: S&P 500 ETFs – Allocation & Holdings by Risk/Reward Rating



Sources: New Constructs, LLC and company filings

Figure 6: Russell 2000 ETFs – Allocation & Holdings by Risk/Reward Rating



Sources: New Constructs, LLC and company filings

**S&P 500 ETFs Overview**

Figure 7 lists the top 25 companies in the S&P 500 by market capitalization representing about 35% of the overall index.

**Figure 7: Top 25 S&P 500 Companies by Market Cap.**

Ticker	Company Name	Industry	P/E Ratio	% of Index
XOM	Exxon Mobil Corp	Energy	13.3	3%
AAPL	Apple Inc.	Information Technology	23.6	3%
MSFT	Microsoft Corporation	Information Technology	12.7	2%
IBM	International Business Machines Corp	Information Technology	15.1	2%
CVX	Chevron Corporation	Energy	11.1	2%
GE	General Electric Company	Industrials	17.4	2%
WMT	Wal-Mart Stores, Inc.	Consumer Staples	12.1	2%
JNJ	Johnson & Johnson	Health Care	14.1	2%
PG	The Procter & Gamble Company	Consumer Staples	16.0	2%
T	AT&T Inc.	Telecommunication Services	9.2	2%
GOOG	Google Inc.	Information Technology	20.5	1%
ORCL	Oracle Corporation	Information Technology	19.6	1%
PFE	Pfizer Inc.	Health Care	19.5	1%
JPM	JPMorgan Chase & Company	Financials	10.0	1%
KO	The Coca-Cola Company	Consumer Staples	13.4	1%
WFC	Wells Fargo & Company	Financials	12.5	1%
INTC	Intel Corporation	Information Technology	11.2	1%
PM	Philip Morris International, Inc.	Consumer Staples	17.0	1%
SLB	Schlumberger Ltd.	Energy	25.8	1%
C	Citigroup Inc.	Financials	11.2	1%
MRK	Merck & Co., Inc.	Health Care	130.6	1%
PEP	PepsiCo Inc.	Consumer Staples	17.6	1%
COP	ConocoPhillips	Energy	9.8	1%
VZ	Verizon Communications, Inc.	Telecommunication Services	41.1	1%
BAC	Bank of America Corp	Financials	-27.7	1%
<b>Total</b>				<b>35%</b>

Sources: New Constructs, LLC

**Appendix: Risk/Reward Rating System**

Our Risk/Reward Rating System assigns a rating to every stock we cover according to what we believe are the 5 most important criteria for assessing the risk versus reward of stocks. See table that follows for details.

<b>Overall Risk/Reward Ranking</b>	<b>The Overall Risk/Reward Ranking provides a final rating based on the equal-weighted average rating of each criterion.</b>
<b>Very Dangerous</b>	FCF Yield is not included in the average.
<b>Dangerous</b>	FCF Yield is not included in the average.
<b>Neutral</b>	All criteria are equal-weighted in the average calculation.
<b>Attractive</b>	All criteria are equal-weighted in the average calculation.
<b>Very Attractive</b>	All criteria are equal-weighted in the average calculation.

<b>Economic vs Reported Earnings</b>	<b>Rates stocks based on how their Economic Earnings compare to their Reported Earnings. Values based on Latest Fiscal Year.</b>
<b>Very Dangerous</b>	Negative and declining Economic Earnings despite positive and rising Reported Earnings
<b>Dangerous</b>	Same as above except Reported Earnings are not rising or Reported Earnings are not positive
<b>Neutral</b>	Negative Economic and Reported Earnings
<b>Attractive</b>	Economic Earnings are positive
<b>Very Attractive</b>	Economic Earnings are positive and rising

<b>Return on Invested Capital (ROIC)</b>	<b>Rates stocks based on their ROIC. Values based on Latest Fiscal Year.</b>
<b>Bottom Quintile</b>	Very Dangerous = the bottom 20% of Russell 1000 companies
<b>4th Quintile</b>	Dangerous = the bottom 40% of Russell 1000 companies
<b>3rd Quintile</b>	Neutral = the middle 20% of Russell 1000 companies
<b>2nd Quintile</b>	Attractive = the top 40% of Russell 1000 companies
<b>Top Quintile</b>	Very Attractive = the top 20% of Russell 1000 companies

<b>FCF Yield</b>	<b>Rates stocks based on their Free Cash Flow Yield. Values based on Latest Closing Stock price and Latest Fiscal Year.</b>
<b>&lt;-5%</b>	Very Dangerous = less than or equal to -5%
<b>-5%&lt;-1%</b>	Dangerous = more than -5% but less than or equal to -1%
<b>-1%&lt;3%</b>	Neutral = more than -1% but less than or equal to +3%
<b>3%&lt;10%</b>	Attractive = more than +3% but less than or equal to +10%
<b>&gt;10%</b>	Very Attractive = more than +10%

<b>Price-to-EBV Ratio</b>	<b>Rates stocks based on their Price-to-Economic Book Value Ratio. Values based on Latest Closing Stock price and Latest Fiscal Year.</b>
>3.5 or -1>0	Very Dangerous = greater than or equal to 3.5 or less than 0 but greater than -1
2.4>3.5 or <-1	Dangerous = greater than or equal to 2.4 but less than 3.5 and less than or equal to -1
1.6>2.4	Neutral = greater than or equal to 1.6 but less than 2.4
1.1>1.6	Attractive = greater than or equal to 1.1 but less than 1.6
0>1.1	Very Attractive = greater than or equal to 0 but less than 1.1

<b>Growth Appreciation Period (yrs)</b>	<b>Rates stocks based on their Market-Implied Growth Appreciation Period. Values based on Latest Closing Stock price and Default Forecast Scenario.</b>
>50	Very Dangerous = greater than or equal to 50 years
20>50	Dangerous = at least 20 years but less than 50
10>20	Neutral = at least 10 years but less than 20
3>10	Attractive = at least 3 years but less than 10
0>3	Very Attractive = at least 0 years but less than 3



## New Constructs® – Profile

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1. Based on the complete set of financial information available.
2. Standard for all companies.
3. A more accurate representation of the true underlying cash flows of the business.

### **Additional Information**

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