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ETF Guru Marvin Appel's Trading Strategy

BY TRANG HO
INVESTOR'S BUSINESS DAILY

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In his second book on ETF investing, "Beating the Market, 3 Months at a Time," private wealth manager Marvin Appel lays out a strategy that's a hybrid of active management and buy-and-hold investing.

He explains how you can spend just one hour every three months and build an ETF portfolio that lowers risks yet increases returns.

The book was co-written with his father, Gerald Appel, inventor of the MACD [moving average convergence divergence] technical indicator.

Marvin Appel



■ Appel Asset Management

■ CEO

■ Co-author of "Beating the Market, 3 Months at a Time" and "Investing With Exchange-Traded

Funds Made Easy"

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three-month intervals, it has been possible to be on the right side of major market trends.

It has been my experience in real time and in research that evaluating at one- to three-month intervals

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IBD:

How can investors beat the market three months at a time using ETFs, and which ETFs do you recommend for this strategy?

Appel: The idea behind the strategy is to start with a menu of broadly diversified ETFs that represent distinct areas of the stock market.

However, rather than holding a bit of everything at all times, the strategy allows investors to select from the menu only those ETFs with the potential to perform better than average.

As a general rule, some investment styles are in favor while others are out of favor. Trends that, for example, favor large caps over small caps or growth over value have historically lasted for years at a time. By evaluating different styles at

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has been optimal for selecting the strongest areas of the world's markets or the strongest investment styles within the U.S.

To make it easiest for the reader, I recommended a quarterly strategy. On the last trading day of each quarter, the investor should buy those ETFs that had the highest total return for the quarter. The ETF selected in this way are held for the upcoming quarter, at the end of which the total returns for all the ETFs in the menus are re-evaluated.

If one of the holdings already in the portfolio happens to be among the best performers, it remains in portfolio. Otherwise, it is replaced by the newest leader. On average, ETF selections stay in the portf for two quarters.

There are two different menus of ETFs recommended in the book. First, for a strategy that mainly co the U.S., investors should select the top two of the following five ETFs: **iShares Russell 1000 Growth (IWF)** (large-cap growth), **iShares Russell 1000 Value (IWD)** (large-cap value), **iShares Russell 20 Growth (IWO)** (small-cap growth), **iShares Russell 2000 Value (IWN)** (small-cap value), and **iShare MSCI EAFE (EFA)** (developed-country international).

Of these five, the two favored for the third quarter are large-cap growth (iShares Russell 1000 Growth) and small-cap growth (Russell 2000 Growth).

The menu of international ETFs has just three, of which the investor should select the top one: **iShar MSCI Japan, (EWJ)** **iShares Europe 350 Index (IEV)** and **Vanguard Emerging Market (VWO)** or **iShares MSCI Emerging Markets. (EEM)**

IBD: What's the past performance record for this strategy?

Appel: The strategy of selecting the top two of the five ETFs would hypothetically have returned 15.5 a year during 1979-2007.

The strategy of selecting the top international equity ETF would hypothetically have returned 17.9% a year from 1979.

Note that these results are based on the underlying index benchmarks for the ETFs and do not reflect actual ETF expense ratios, taxes or transaction costs. Also note that investments that tracked these indexes were not available to individual investors during much of the test period.

IBD: What should investors do during bear markets?


Appel: One of the advantages of ETFs is that investors can sell them and move to cash at any time. an investor has identified an unfavorable market climate, that is what he should do.

However, our book does not address how to identify bear markets, because that is as much an art as science these days.

IBD: How do you go about picking bond ETFs, and which do you currently recommend?

Appel: **iShares Lehman Aggregate Bond, (AGG)** **Vanguard Total Bond Market Index (BND)** and **iShares Lehman Intermediate Credit Index. (CIU)**

For high-yield bonds, traditional mutual funds are better than the **iShares High Yield Bond (HYG)** because the latter has too much day-to-day volatility, whereas high-yield mutual fund prices generally move in a smoother fashion. However, my recommendation is that assets that would normally be allocated to high-yield bonds should now be in cash.

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