5 Must-Have ETFs for Today's Market

As investors look for ways to address inflation concerns and diversify, these exchange-traded funds hold distinct advantages

BY RONALD DELEGGE, ETFGUIDE.COM
February 3, 2013

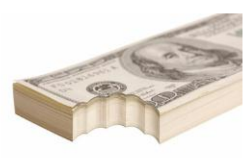
Though building an investment portfolio around a base of core holdings is not new, making it happen in an uncomplicated fashion is a rather recent development.

Here are ETFs in five major asset categories that are very much worth looking at and adding to every investment portfolio for the diversity of exposure and other advantages they potentially bring to investors.

1) ASSET CLASS: U.S. Stocks
FUND: Schwab U.S. Broad Market ETF (SCHB)

This $1.3 billion fund is an excellent choice for advisors and investors that want a core domestic stock, ETF. Well-known equity ETFs like the SPDR S&P 500 (SPY) and SPDR Dow Jones Industrial Average ETF (DIA) are still good, but they're limited to owning large company stocks.

In contrast, SCHB tracks the 2,500-stock Dow Jones U.S. Broad Stock Market Index. This particular benchmark automatically includes exposure to not just large cap stocks like Google and Coca-Cola, but faster growing mid- and small cap stocks too. Annual portfolio turnover is just 5% and annual expenses are a meager 0.04%. The fund carries a dividend yield of 2.02%. And here's one other benefit: Schwab brokerage customers can trade SCHB commission free.



2) ASSET CLASS: Inflation Linked Securities
iShares Global Inflation Linked Bond Fund (GTIP)

If there's one thing we've learned from Europe's financial crisis, it's that concentrated exposure to a single bond issuer is a big risk. This basic truth applies in Europe and anywhere else throughout the globe.

GTIP offers bond investors an opportunity to hedge against higher inflation while simultaneously diversifying both credit and currency risk.

The fund holds sovereign debt that is publicly issued and denominated in the issuer's own domestic market and currency.

While many ETF investors know about U.S. Treasury Inflation Protected Securities (TIPS), too few understand that diversifying both credit and currency risk away from the U.S. government is an absolute must.

The top three countries that GTIP's bonds own are the United States (34.98%), United Kingdom (20.49%), and Brazil (11.96%).

The fund tracks the BofA Merrill Lynch Diversified Inflation Linked Bond Index. GTIP charges annual expenses of 0.40%.

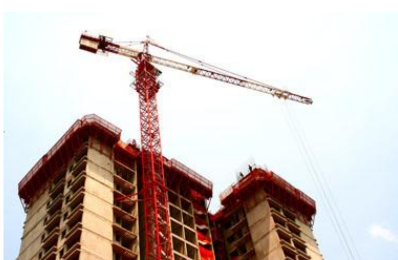
3) ASSET CLASS: Commodities
FUND: GreenhavenContinuous Commodity Index Fund (GCC)

Commodities are still an under-represented asset class in most investment portfolios.

To alleviate this problem, GCC offers one-stop shopping for getting exposure to a broad swath of commodities. GCC follows the Thomson Reuters Equal Weight Continuous Commodity Total Return Index (CCI-TR), which owns commodity futures contracts on agriculture, energy, metals, and softs.

Unlike its peers, which often distort commodity exposure to one or two sectors, GCC's underlying index is equally weighted across 17 different commodities plus an additional Treasury Bill yield.

The fund is rebalanced every day in order to maintain each commodity's weight as close to 1/17th of the total as possible. The fund's annual expense ratio is 0.85% plus an additional 0.20% for estimated brokerage trading costs.



4) ASSET CLASS: Global Real Estate
FUND: SPDR Dow Jones Global Real Estate ETF (RWO)

How long and how expensive would it be to build a global real estate portfolio from scratch?

You don't have to go that route because RWO owns 213 real estate equities across 17 countries.

The top three countries represented are the U.S. (54.68%), Japan (8.62%), and Australia (8.08%).

Over the past year, U.S. REITs (VNQ) have returned 15.96% whereas global real estate (RWO) has delivered an even better 20.53%. The fund also carries a dividend yield just above 3.5%. RWO's annual expense ratio is 0.50%.

5) ASSET CLASS: Emerging Market Stocks
FUND: Vanguard FTSE Emerging Markets ETF (VWO)

This ETF invests in stocks of companies located in emerging markets around the world, like China, Brazil, Taiwan, and South Africa. VWO is linked to the FTSE Emerging Transition Index.

This $61 billion fund is not just the largest emerging market stock ETF, but it's among the least expensive. VWO charges annual expenses of just 0.20%.

While the Schwab Emerging Markets Equity ETF (SCHE) charges a lower expense ratio of 0.15%, it has a higher bid/ask spread of 0.15% versus a VWO which has a spread of just 0.04%. VWO has gained 8.45% over the past year.