

DATA BROWSE

ETF Issuance Slowed In Dec.

Assets in ETFs stood at \$296.02 billion as of Dec. 31, up 2.4% from November and up 3% from a year earlier. Net issuance slowed in December due largely to an increase in redemptions. The ranks of ETFs grew to 301 from 196 in November and 151 a year earlier.

Source: Investment Company Institute

ETF assets, in millions

	Nov. '05	Dec. '05	Dec. '04
Total domestic stock index	\$184,045	\$214,127	\$215,877
* Domestic (broad-based)	\$143,730	\$184,667	\$184,800
* Domestic (sector/industry)	\$30,315	\$29,461	\$29,098
Global/international stock index	\$33,644	\$59,795	\$46,210
Bond index	\$8,516	\$15,830	\$15,964
All	\$226,205	\$289,953	\$294,022

Value of ETF shares issued and redeemed, in millions

	2005	2005	Nov. '05	Dec. '05
Gross issuances	\$156,683	\$267,243	\$29,805	\$33,353
Gross redemptions	\$101,662	\$213,372	\$15,038	\$27,660
Net issuance	\$55,021	\$53,871	\$14,767	\$6,693

Number of ETFs

	Nov. '05	Dec. '05	Dec. '04
Total domestic stock index	102	141	146
* Domestic (broad-based)	68	78	80
* Domestic (sector/industry)	42	63	66
Global/international stock index	43	49	447
Bond index	6	6	6
All	191	196	201

EXCHANGE TRADED FUNDS

Q & A
PowerShares Takes AIM As ETFs Take Off

Merger Viewed As Catalyst

CEO Bond eyes influx of investors into so-called smart ETFs in new year

BY MURRAY COLEMAN
INVESTOR'S BUSINESS DAILY

PowerShares blitzed the exchange traded fund market last year.

It started by delivering two ETFs in 2003. It added two more the next year. Then last year it launched 32.

Most were based on what PowerShares' Chief Executive Bruce Bond calls intelligent indexes. These are a hybrid, somewhere between actively managed mutual funds and other ETFs that follow low-turnover, static benchmarks.

Now approaching \$4 billion in assets, PowerShares has struck a deal to merge with London-based Amvescap. Bond and his crew will work through Amvescap's U.S. retail money manager AIM, which has \$129 billion in assets.

To find out more about PowerShares plans with ETFs, IBD talked last week with Bond.

IBD: How does this deal work from an operational view?

Bond: Amvescap plans on keeping us pretty independent. The goal is to provide a significant amount of distribution services to us without significantly changing how we operate. It will give us the tools to grow more rapidly. The administra-



Bond (sixth from left) gets help introducing a new ETF at NYSE on Dec. 19.

tive and marketing support Amvescap offers makes a lot of sense for a company growing as fast as we are. PowerShares needed this to continue to grow rapidly.

IBD: What do you see on the horizon for ETFs?

Bond: We see tremendous growth in more intelligent types of products. These are ETFs that provide the opportunity for higher performance and lower risk.

IBD: Are you talking about actively managed ETFs then?

Bond: All ETFs are based on indexes. The SEC wants to ensure ETFs maintain a high level of transparency. But most active managers don't want to divulge their holdings on a daily basis.

IBD: So how is PowerShares getting around that?

Bond: The index itself has to be intelligent. We replicate benchmarks that do so. Many of the Pow-

erShares are based on Intellidex benchmarks. These are designed by the American Stock Exchange. They use a methodology involving 25 different factors to evaluate securities.

IBD: Why is this significant?

Bond: Most benchmarks invest based on market exposure. The indexes we're replicating don't necessarily try to own everything. They try to evaluate the investment qualities of each security. As a result, they're as different as actively managed mutual funds are to funds based on more traditional benchmarks.

IBD: How so?

Bond: Our Intellidex ETFs average 150% turnover a year. That compares to an index fund, which might have 10%-20% turnover.

IBD: Doesn't that result in more transaction costs and taxes?

Bond: The two Intellidex ETFs

that came out in May 1, 2003, have significantly outperformed their benchmarks. And they've had no capital gains distributions and very low transaction costs. This is due to the unique structure of an ETF. **IBD:** You mean creation units being sold directly between investors?

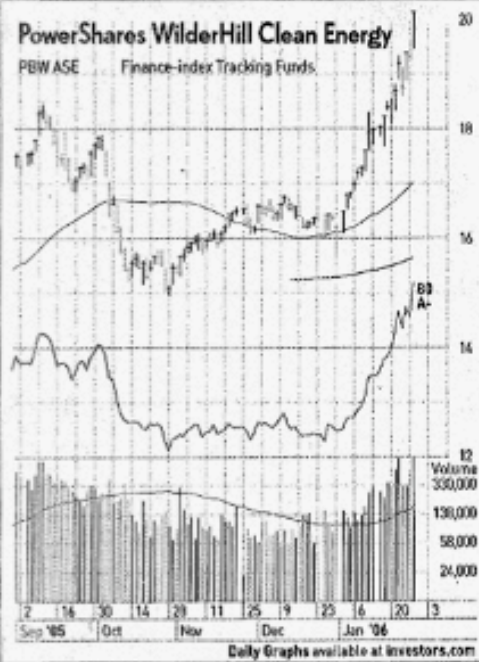
Bond: Yes, people don't give us cash. They give us stocks. So when an ETF grows, stocks come into it rather than cash. And the same thing happens when there's a liquidation. So we're not incurring a lot of transaction costs or redemption fees.

IBD: But Intellidex ETFs makes more changes than a typical index fund, doesn't it?

Bond: The Intellidex ETFs rebalance every quarter. It's very similar to the quantitative methods being used by institutional investors. In addition, we also have ETFs now that replicate research provided by Zacks and Value Line. The index based on Zacks' methodologies has the ability to make changes weekly. The Value Line benchmark rebalances quarterly and ranks stocks based on positive momentum, risk and other technical factors.

IBD: What are your future plans?

Bond: We have several more filings with the SEC for new ETFs. And we've got a number of other potential products in various stages of development to provide investors with next-generation ETFs to choose from in many other areas of the market.



1-Month Winners & Losers

TOP 10				BOTTOM 10			
ETF	Symbol	Ret 30 1-mth	Rtg %chg	ETF	Symbol	Ret 30 1-mth	Rtg %chg
PS Wld Clean Eny	PBW	83	22.1	HT Internet	HHN	51	-7.1
IS Mod Brazil	EWZ	92	22.8	HT Biotech	BBH	59	-5.7
HT Oil Service	ORX	96	18.9	HT Retail	RTH	34	-1.8
IS S&P LatAm 40	ILF	96	15.6	IS Lehman 20+ Yr	LJL	38	-1.5
IS Rise/Zhonghua Chao	FZO	77	15.2	HT Regional Bank	RNB	41	-1.2
PS Dynamic S&P 500	PSI	79	14.7	Soy Consumer Staples	XLP	36	-1.0
IS Mod Cash Flow	CFI	66	14.6	HT Tobacco 3.16 W	TCF	39	-0.8