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NEDBANK CAPITAL – BETTABETA EQUALLY WEIGHTED TOP 40 ETF – PERFORMANCE REVIEW

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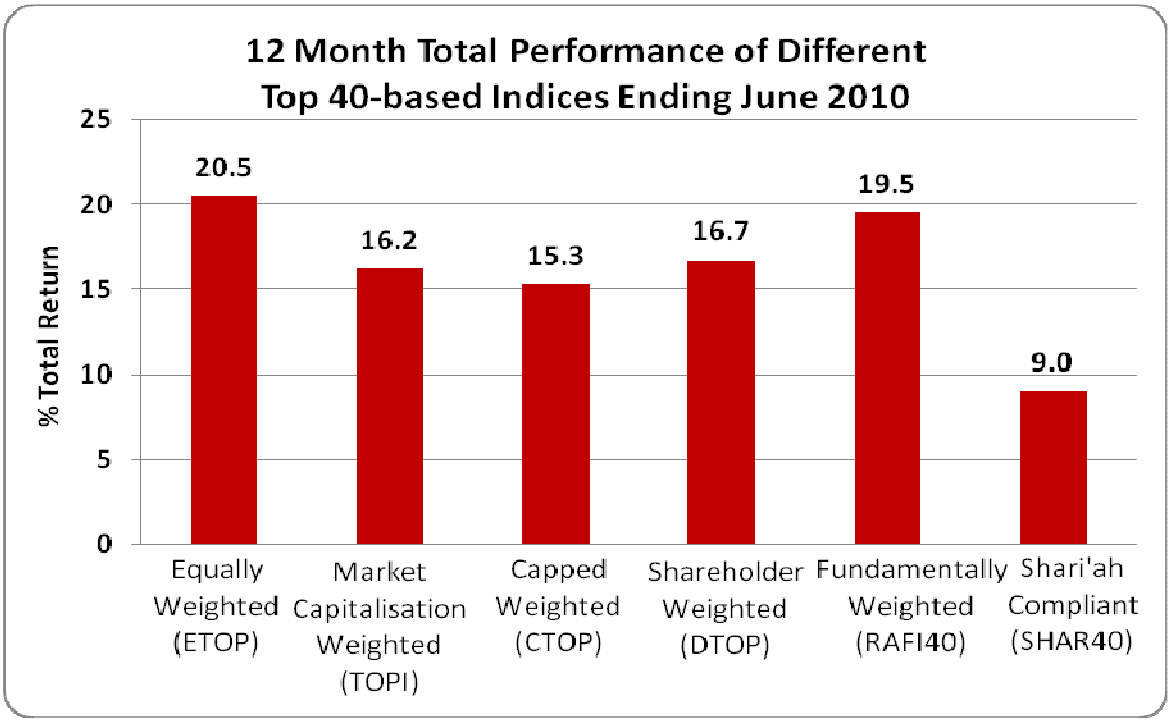
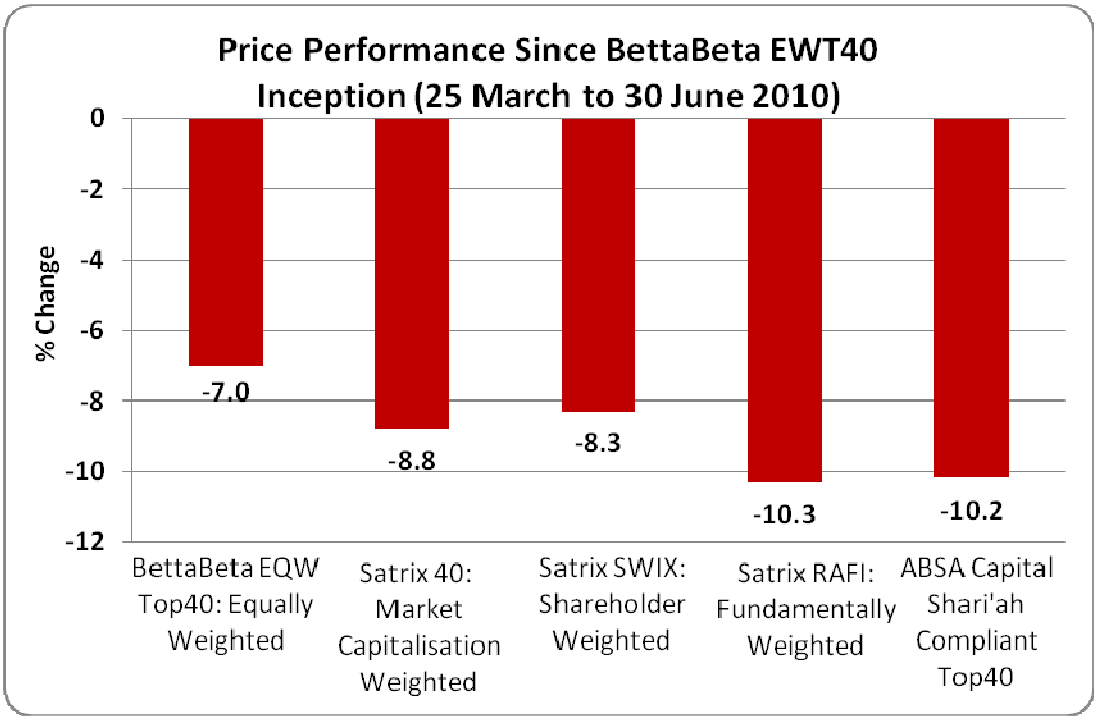
6 July 2010

Nerina Visser of Nedbank Capital has released a report (attached), which covers the performance of the BettaBeta EWT40 ETF, since its listing on 25th March 2010. The equally weighted Top 40 index has the same constituent securities as the Satrix 40 and BIPS 40 ETFs, but with the holdings of the 40 blue chip companies determined, not by market capitalisation, but by an equally weighted 2,5% exposure to each of the 40 index constituent companies.

The distinction between an equally weighted index and a market capitalisation index tracking the same group of companies can be quite significant as Nerina Visser demonstrates in her report. As shown below, an equally weighted FTSE/JSE Top 40 index has delivered a total return of 20,5% for the 12 months ended June 2010, whereas the market capitalisation top 40 index has only provided a total return of 16,2%. The outperformance of the equally weighted index is explained primarily because of the underperformance of resource stocks, which are far more heavily weighted in the market capitalisation and other top 40 indices, than in an equally weighted index.



The Nedbank BettaBeta EWT40 ETF has only been in existence for the past 3 months, but appears to have delivered on its objective to provide a more stable and balanced exposure to the JSE's top counters. Over this period of extreme market volatility, with the FTSE/JSE All Share index dropping by 8% and the MSCI World Index by 12,6% (in US$ terms), the BettaBeta EWT 40 fell by less than other competitive products, demonstrating that a balanced portfolio spread can help to control the impact of market fluctuations and volatility.



Of course, should commodity prices start outperforming and more stable conditions return to global financial markets, including South Africa, it is likely that a market capitalisation index, which favours the mega-cap and resource stocks, would outperform an equally weighted index. Accordingly, investors should not ignore the potential for recovery in market cap weighted ETFs, such as Satrix 40, BIPS 40, or the fundamentally weighted RAFI 40 ETFs.

What is important, however, is that the increasing selection of ETFs available to the investment community, enables investors to choose from a spectrum of more conservative products, which combat volatility, to others which offer the full growth momentum of any market recovery. All of these ETF products can be transacted on the etfSA Investor Scheme™ through the www.etfsa.co.za website, or call 0861 383 721.

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