

## Us Large Cap Sector Rotation Through ETFs

While U.S. equity ETFs experienced outflows in January, one of the more popular ways to invest was through sector focused products. For some, sector ETFs offer a more efficient way to get exposure to parts of the market where fundamentals and valuations are, to them, more appealing than others. But investors and advisors need not go it alone, as there are ETF Investment Strategists deploying such strategies, including Main Management.

Main's U.S. Large Cap Sector Rotation Strategy starts with a top-down view on macroeconomic factors, including GDP, inflation, etc. in an effort to provide a view on where the U.S. is in the economic cycle. Next, the team focuses on increasing exposure to U.S. sectors where it sees appealing valuations and key fundamental drivers. At the same time, the team limits exposure to other areas.

Kim Arthur, Main's CEO and CIO, told S&P Capital IQ that the strategy allows for a 0 to 2.5X weighting in a sector relative to the S&P 500 Index. When Main chooses to favor one sector, it will begin by investing in a broad sector ETF before adding specific industry exposure. Main tends to hold an ETF for 12-18 months. Main's primary focus is on an ETF's top-10 holdings and then establishes price targets, which are rolled up to the ETF level. In our opinion, most sector ETFs such as Technology Sector SPDR [XLK 35 Overweight] have market-cap driven weightings and thus tend to be rather concentrated [61% of assets are in top-10 holdings], so a look at the top-10 can be a good proxy.

Information Technology is one of Main's favored sectors, with XLK complemented by Market Vectors Semiconductor [SMH 42 Overweight] and iShares North Ameri-

### Key Takeaways

*We view these sector focused ETFs, which are inside an Investment Strategy from Main, favorably for holdings and costs.*

#### POSITIVE IMPLICATIONS

FINANCIAL SELECT SECTOR SPDR FUND	OVERWEIGHT	[XLF]
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HEALTH CARE SELECT SECTOR SPDR FUND	OVERWEIGHT	[XLV]
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ISHARES US BROKER-DEALERS ETF	MARKETWEIGHT	[IAI]
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MARKET VECTORS SEMICONDUCTOR ETF	OVERWEIGHT	[SMH]
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TECHNOLOGY SELECT SECTOR SPDR FUND	OVERWEIGHT	[XLK]
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VANGUARD HEALTH CARE INDEX FUND; ETF CLASS SHARES	OVERWEIGHT	[VHT]
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The recommendations contained in this Takeaway box are current, and may have changed since the original story was published.

can Tech-Software [IGV 83 Marketweight]. While well diversified and incurring a modest 0.18% expense ratio in our opinion, XLK offers the most exposure to Computer Hardware and Internet Software & Services sub-industries. But according to Arthur, the two industry focused ETFs provides Main and its clients with more direct exposure to capital spending and increased productivity from the cloud. Although smaller by assets than XLK, SMH has a tight \$0.01 bid/ask spread its holdings are

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attractively valued from an S&P Capital IQ STARS perspective.

S&P Capital IQ provides research and rankings on approximately 800 equity ETFs, based on a combination of proprietary holdings-based research and relevant performance and cost factor metrics. ETFs that earn a top ranking of Overweight have a number of favorable attributes in our opinion.

Another favored sector by Main is Financials, which Arthur sees benefitting as M&A activity is picking up, headline risk is largely in the past and dividend increases are likely. The core position is in Financials Select Sector [XLF 21 Overweight], which is most concentrated in Other Diversified Financial Services and Diversified Banks. This ETF also ranks favorably for its underlying S&P Capital IQ STARS rankings and tight bid/ask spread. iShares US Broker Dealers [IAI 37 Marketweight], which has most of its assets in Investment Banking & Brokerage stocks, enhances the strategy. The constituents of IAI are attractively valued based on both S&P Capital IQ STARS and S&P Capital IQ Fair Value rankings, but carry higher risk, according to S&P Capital IQ.

Health Care is Main's third favorite sector, but is unlike Financials and Information

Technology, where one broadly diversified ETF is supported by one or two industry focused ETFs. Here, Main holds both Health Care Sector SPDR [XLV 57 Overweight] and Vanguard Health Care Index [VHT 104 Overweight]. Both of these ETFs offer exposure to various sub-industries and the holdings have strong S&P Capital IQ STARS rankings. However, VHT offers more biotechnology exposure than XLV and fewer of its assets are concentrated within top-10 holdings [47% vs. 56%].

There is little to no exposure within Main's US Large Cap Sector Rotation Strategy to Consumer Discretionary, Consumer Staples, Energy and Materials sectors. The Strategy is rebalanced on a quarterly basis or when sectors achieve their internally derived target prices.

Many of the ETFs that make up this strategy are viewed favorably by S&P Capital IQ for their holdings and costs. To learn more about our views on them, visit the ETF tab of MarketScope Advisor. To learn more about Main's US Large Cap Sector Rotation visit [www.mainmgt.com](http://www.mainmgt.com)

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