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ETFS & FUNDS

Top Advisor Says Need To Adapt To New Info, New Tech Drives Best ETFs

MARIE BEERENS | 02:21 PM ET 10/08/2021

Being cognizant of the need to be flexible during the protracted pandemic is what's helped Sheets Smith Wealth Management to select some of the best ETFs for its clients.

The Winston-Salem, N.C.-based independent money manager helps private clients, foundations, endowments and retirement funds select the most optimal investments for their portfolios. With $1.1 billion in assets under management, Sheets Smith invests in stocks and bonds, as well as real estate, alternative investments and foreign securities for more sophisticated investors.

"We have this changed environment with the pandemic; there is no clear sight to this thing being over," said Emery Pike, senior advisor at the firm. "It's a responsive-kind of environment, the way we're looking at it. The pandemic dominates. There is no way to benchmark when we're going to move beyond this. We may be with this for a long time. So, we're just having to adapt."

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Pike mentioned the need to adapt to new information, new technologies, new supply chains. "I think the idea of an adaptive response is very important to clients and advisors."

3 Picks Among The Best ETFs

As a result, he's shared three of his best ETF ideas. These ETFs provide investors with a balanced portfolio approach that covers income generation, stock market exposure and participation in the disruptive economy.

With rates remaining at very low levels, many investors, and especially retirees, have a difficult time finding investments that generate healthy levels of income. VanEck Fallen Angel High Yield Bond (**ANGL**) invests in bonds of U.S. companies that have just been downgraded from investment grade to high yield.

"It's perhaps the most crystalline example you can find in the bond market of buying low and selling high," said Pike. "This ETF invests in high yield bonds that were recently downgraded from investment grade. So, BBB goes to junk — that's called a fallen angel."

He explained that there is a phenomenon in the market that when this happens, there's a significant amount of forced selling. "So these bonds get beaten down in price. And the index, which is rules-based, will identify these candidates every month. So it's very timely."

Oversold, Undervalued Bonds Highlight This ETF

Holdings include **Ford Motor** (**F**), **Kraft Heinz** (**KHC**), **Deutsche Bank** (**DB**) and **Royal Caribbean Group** (**RCL**).

"The ETF is systematically buying these oversold, undervalued bonds. So, it's buying low, at the right time," said Pike. "It will hold these bonds until they are promoted back to the investment grade universe. That's called a rising star."

The $5.2 billion fund yields 3%, is up 6.4% YTD and charges an annual fee of 0.35% to hold the ETF.

To provide investors with **large-cap equity exposure** and a potential to outperform the benchmarks, one of Pike's best ETF recommendations is Schwab U.S. Large-Cap (**SCHX**).

"An investor in U.S. large-cap stocks has to face the reality that it's extremely hard to outperform the benchmark, whether it's the S&P 500 or the Russell 1000," he said. "If it's large cap, it's an extremely efficient market."

Large-Cap Exposure Helps This Growth Stock Fund Excel

Pike noted that the latest SPIVA study, which tracks the performance of actively managed funds vs. their benchmarks, found that 94% of active fund managers over the last 20 years failed to beat their index.

By comparison, $32.6 billion SCHX has outperformed the S&P 500 in the last one, three, five and 10-year periods ending June 30. The fund charges an annual fee of just 0.03%.

"It's an exceptionally well designed, ultra-low-cost way to get exposure to the 750 largest stocks in the Dow Jones U.S. Large-Cap Total Stock Market Index," he explained. "So, this is the secret sauce of this ETF."

The advantage of the fund is that it's rules based. The S&P 500, which most managers measure their large-cap performance against, is not rules based. As a result, some stocks get added late, such as was the case with **Amazon** (**AMZN**), Pike said. The fund is up more than 19% YTD.

The third ETF, SPDR S&P Kensho New Economies Composite (**KOMP**), provides exposure to the most innovative companies of the new economy of the 21st century. The **growth stock fund** uses artificial intelligence and a quantitative weighting to select disruptive firms in the fields of processing power, AI, robotics and automation.

This Best ETF Focuses On Innovative Stocks

"It's a newer ETF, so it does not have three years of history, but the history it does have is exceptionally strong," said Pike. "This ETF is a way for investors to get exposure to the innovation and change that's happening in the economy."

He explained that Kensho is a pioneer in AI and algorithmic data scraping. "What they have done with this composite index is they have recast the traditional GICS (Global Industry Classification Standard) — the sectors everybody knows — into 22 themes for the new economy." Those include self-driving vehicles, clean energy, nanotechnology, cybersecurity and intelligent infrastructure.

"It adds a powerful element, which is actually very forward looking. It actually anticipates companies that are driving the new economy," he said. "For instance, the Kensho index started buying **Nvidia** (**NVDA**) several years ago when people thought it was a video game chip company. But they actually have all the chips for the **Tesla** (**TSLA**) cars now."

The $2 billion fund is up 7.4% YTD and charges an annual fee of 0.2%. The fund holds about 77% in U.S. stocks and 23% in international equities.

"This index is a way for investors to actually game the whole ecosystem," pointed out Pike. "That's really important. When you buy KOMP, you're buying the entire new economy ecosystem."