

[ETFOX](#) isn't your typical mutual fund as its portfolio is made up almost entirely of ETFs. The fund's investment portfolio is managed on a day-to-day basis by [Paul Michael Frank](#). Paul was born in 1962 in Quebec, Canada. His formal education includes a B.A. in History and Economics from Drew University. He also completed an MBA in Finance from Fordham University's Graduate School of Business Administration in 1992 where he was named class valedictorian.

In April 2004, he launched the ETFOX mutual fund, which he has managed since, gathering roughly \$65 million in assets under management. ETFOX has earned four stars from Morningstar for its five-year performance. YTD (through Nov. 30), the fund had outperformed the S&P 500 SPDR ETF ([SPY](#)) by over 6%, excluding expenses.

As 2009 comes to a close, Seeking Alpha's Jonathan Liss sits down with Paul for a look back at how he positioned ETFOX during a rocky 2009, and a look ahead to the major issues facing markets in 2010, identifying sectors and asset classes with particular promise for investors while highlighting potential risks.

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Seeking Alpha (SA): *At the beginning of this year (through the March low), there was a real sense that there was no bottom in sight in terms of equities. Since March, the rebound has been spectacular pretty much across almost all sectors and asset classes. How did you initially position ETFOX's holdings when the markets were in free-fall and how have you positioned them since then? At what point did you decide it was ok to get less defensive and start being more aggressive?*

Paul Frank (PF): I keep approximately 80% of the Fund invested in US Equities at all times and don't make any effort to time the market. The beginning of the year was a follow through from the fall of 2008 and was a difficult environment in which to stay invested. The Fund continued to underweight financials and overweight large growth, healthcare, and semiconductors. The Fund outperformed during that time period mainly because of a position in an inverse US Government Bond fund.

The Fund is managed quantitatively, and my model picked up the move shortly after it started in March. This allowed me to outperform in a big up year after outperforming in the previous big down year. I was overweight US Small Caps in the spring and summer and then rotated into US Mid Caps, which I am still overweight. I also moved into Hong Kong and an Aerospace & Defense fund in the spring.

SA: *Name one investment that worked out particularly well in 2009 and one that was a bust.*

PF: Revenue Shares Small Cap ([RWJ](#)) was one of our best holdings during 2009. This fund shot up my rankings along with a few other funds which had a high exposure to small cap financial names. I have since rotated a lot of this holding into Revenue Shares Mid Cap fund ([RWK](#)).

The iShares MSCI Chile ETF ([ECH](#)). Chile was one of my disappointments in 2009. It was continuously high in my rankings but extremely hard to take a large position in. I slowly built a

position in the ETF and just as slowly exited it with a small profit. I should probably still be in the fund with a large profit, but felt forced to wind down the position due to liquidity issues.

SA: *Are we heading for another widespread dip in global equity prices in 2010, or will markets continue to keep their heads above water?*

PF: Equity prices may have moved too far in 2009, but I believe we will have strong growth in late 2010 and we can see the equity averages close out 2010 with gains.

SA: *In which sectors/asset classes do you expect strength in 2010 and beyond? Where do you expect particular weakness? Will we see a flight away from safety to riskier asset classes going forward?*

PF: ETFs that concentrate on US equities with high dividend yields are moving up my rankings, and will have a strong presence in the Fund in early 2010. I will also continue to be overweight US Mid Caps, Aerospace & Defense, Energy, and the Far East/Asia. I think the weakness may be in all the “Dollar weakness” trades. We’ve already seen a flight into places like Brazil so I hope it doesn’t get too crazy going forward.

SA: *What are your expectations for commodities, the dollar and gold in 2010 and beyond? Where do you see oil closing out the next year?*

PF: I believe we are going to have very strong growth by the second half of 2010. That is bullish for almost all commodities, which I believe will close December 31, 2010 well above where they open on January 2, 2010. Hopefully the Fed will start moving the Fund’s Rate up in 2010 which should be bullish for the US Dollar. My estimate for gold’s price in December 2010 is where it is right now (approximately \$1,100). There are quite a few forces working for and against gold, and I can’t see any of them being dominant and sending the metal too far from where it presently is. I think oil is already pricing in a big pick-up in growth, and my best estimate is \$80/barrel. Of course there are geopolitical events which can change these scenarios and the Fund’s investment process reacts to those changes. I don’t try to predict them.

SA: *Let's move on to some specific issues that will affect equity returns in 2010 and beyond. How is the healthcare reform currently being debated likely to affect healthcare sector returns? Will healthcare stocks continue to represent a good value for investors going forward? Will they still make sense as a defensive play?*

PF: Healthcare was one of the defensive plays that helped the Fund outpace the market in 2008, and we had a small position for a time during 2009. It can no longer be considered a defensive play simply because it has a low beta, there are too many extraneous pressures on the sector and it is no longer trading simply on an earnings and growth basis. I’m not sure what will come out of the House of Representatives in the next month, but I can’t see it being good for healthcare stocks over the long run.

SA: *How about a climate bill? The general feeling according to sites like Greentech Media which follow these matters closely is that we won't get anything substantial until 2011. What are*

the investment implications of a wide-reaching climate bill for the energy and automotive sectors?

PF: Many think the implications [of such a bill] would be dire, but I believe there will be tremendous opportunities in both the energy and automotive sectors. There would be better opportunity without any government stewardship, but I believe market forces will force innovation and a well-positioned portfolio will benefit from new products and markets.

SA: *Do you think inflation will ramp up in 2010? Considering the massive budget deficit in Washington, what would be the ideal level of inflation?*

PF: As always the US Federal Open Market Committee is the important variable in this question. Presently they are so afraid of deflation that they are holding rates at an unimaginable level. If they have the backbone to start boosting rates soon, they will keep inflation at bay. If they don't move fast enough we are going to have excess demand for many goods and commodities, and we haven't beefed up any production, so yes, we could have rampant inflation.

Historically, inflationary spikes are often caused by an unanticipated event; in today's world the list of possible suspects is long. I believe the ideal level of inflation is either zero or negative. In an economy which is growing and innovating, there actually should be mild deflation. For some reason our Fed's mantra is to keep stable price increases. This has always puzzled me.

SA: *As a follow-up to the last question, which sector of the bond/fixed-income market represents the best value going forward? Long-term or short-term; Treasuries, Munis, or Corporate bonds; U.S. or Foreign bonds? Have you been buying TIPS for your clients at all?*

PF: The Fund presently owns [TBF](#), which is an unleveraged ETF giving a return equal to the inverse of the long-end of the US Treasury market. At the present time the Fund is staying away from fixed income, but if I had to choose I would pick the US Corporate sector.

SA: *Finally, how do you rate the Obama administration's handling of the mess they inherited? Is Bernanke the right man to continue at the Fed?*

PF: I'm not sure of their claim that all of this was inherited. The Treasury Secretary has been involved since the Mexican bailout, and while in the Senate, the President was pretty vehement in his opposition to pressure the Bush administration put on Fannie Mae ([FNM](#)). That being said, President Obama did come in at a very challenging time. They made some moves which they felt were necessary to stop a calamity. History will rate their success or failure far better than I could.

Our level of government spending is unsustainable. Tax rates will have to increase which will in turn decrease production. I don't believe we will enter some downward spiral, but something will have to change or break in order to protect our currency and the value of our debt.

I would love to see Bernanke replaced by an inflation hawk like Paul Volcker, but I'm not sure we have the wherewithal to stomach what needs to be done on the interest rate front.