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For decades, financial advisers and their legions of retail clients have generally preferred mutual funds as the investment option of choice for professional management of their assets. In recent years, much has been made about the migration of a notable amount of assets from the investing public from mutual funds into individual ETFs.

Why has this occurred? Cost is one of the top factors, as ETF issuers such as iShares, Vanguard, and State Street have hammered home their message that ETFs generally charge a fraction of the management fee that most mutual funds do. Secondly, tax efficiency in ETFs continues to trump that of mutual funds, and years like 2008, where the market declined substantially, left many mutual fund holders subjected to sizable capital gains taxes in a principal losing environment. This covert penalty simply makes the case to transition to ETFs even stronger to those who are considering selling their mutual funds and looking elsewhere. Transparency of the holdings is yet another factor, and often mutual fund holders complain when their "Large Cap Value" managers are caught owning some Microcap stocks at the end of a reporting period because they were desperately chasing their benchmarks and felt compelled to take risk outside of their designated style boxes to achieve such returns. With ETFs, investors don't run the risk of "not knowing what they're investing in" because the individual underlying holdings on the ETFs are published daily by the fund sponsors.

In the past few years, managers who are adept at managing portfolios of ETFs have begun running their strategies within the wrapper of a traditional mutual fund. Since many financial advisers are comfortable with selling mutual funds to their clients and don't want to give up on their quest for benchmark-beating performance through active management, ETF mutual funds are a perfect match.

Below is a performance summary table that illuminates specifics about such products and some of their differentiating factors:

As of 5/17/2010

Symbol	YTD Ret. %	1 Yr. Ret. %	3 Yr. Ret. %	5 Yr. Ret. %	Inception Date	Beta	Std. Dev.	Morningstar Category	Top ETF Holding
FOREX	0.96	4.04	N/A	N/A	5/27/2009	N/A	10.30	Currency	PowerShares DB Us Dollar Index Bullish (UUP)
ASENX	0.89	6.11	N/A	N/A	4/4/2008	0.81	8.54	Large Value	iShares Barclays 1-3 Year Treasury Bond (SHY)
ETFOX	2.64	22.34	0.94	5.14	4/30/2004	0.84	15.47	Large Growth	SPDR S&P Metals & Mining (XME)
LPCAX	-0.49	-0.12	N/A	N/A	6/1/2007	0.16	3.23	Large Blend	SPDR Barclays Capital Convertible Secs (CWB)
LPMAX	-0.96	2.49	N/A	N/A	6/1/2007	0.21	4.65	Mid Blend	SPDR Barclays Capital Convertible Secs (CWB)
LPGAX	0.13	6.6	N/A	N/A	6/1/2007	0.32	6.92	Mid Growth	SPDR Barclays Capital Convertible Secs (CWB)
DHAAX	1.15	N/A	N/A	N/A	10/30/2009	N/A	N/A	World Allocation	Russell 1000 Value (IWD)
ANENX	0.63	14.15	N/A	N/A	3/4/2008	1.63	15.62	Mid Blend	Rydex S&P Small Cap Pure Value (RZV)
INDEX	-1.64	22.14	-5.42	N/A	5/1/2006	1.99	18.54	Large Blend	iShares TIPS Bond (TIP)

The performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate and an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance data quoted. To obtain ETFOX performance data current to the most recent month-end, please call, toll-free, 800-239-9136 or visit www.etfmutuallfund.com. The total annual operating expense ratio of the ETF Market Opportunity Fund (ETFOX) is 2.09%.

One misconception that some may have on the surface when hearing the title "ETF mutual fund" would be that the funds are simply another variety of an index fund, which is designed to just track a standard market benchmark. In other words, average performance each and every year in line with a benchmark like the **S&P 500** or the **Russell 2000**, which is relegated to under-performance each and every year net of product fees and investment advisory fees charged by the adviser to the client. Nothing could be further from the truth, as these managers of ETF mutual funds are generally running risk-controlled capital appreciation, income generating portfolios, or even absolute return strategies, and tactically using the broad array of ETFs that are available in a way to outperform the market while generally mitigating risk. Some ETF mutual funds even use ETF options within their strategies, whether it be covered call selling or put buying in order to generate additional income or hedge and collar positions.

In recent years, the emergence of ETFs that track commodities, fixed income, volatility indexes, actively managed and quantitative strategies, as well as short and leveraged products has made it possible for managers of ETF mutual funds to express a variety of views on the market and invest in a multitude of asset classes. A manager can be long/short, have exposure to areas of the market such as Emerging or Frontier markets, currencies, metals or livestock, or dozens of other possibilities that simply weren't available a decade ago when the majority of ETFs on the market were vanilla, broad-based index ETFs like **Dow Jones Industrials (DIA)** and **S&P 500 (SPY)**.

Mutual funds of ETFs make sense for financial advisers and investors who either lack the know-how to sort through the ever-growing universe of 900+ ETFs or are unable or unwilling to formulate and run a portfolio of ETFs; professionally managed ETF mutual funds combine the best of two worlds. ETF mutual funds are more tax efficient than their standard equity or fixed income mutual fund counterparts because the underlying ETF holdings are more tax efficient. ETFs are subject to commission costs each time a buy or sell is executed. Depending on the amount of trading activity, the low costs of ETFs may be outweighed by commissions and related trading costs compared to mutual funds but, typically, ETF mutual funds are more cost efficient than ordinary mutual funds. Traditional mutual funds that invest in individual equities or fixed income securities generally require a staff of fundamental analysts to interview company managers, travel to visit companies, listen to conference calls and quarterly earnings calls, and are generally running around the clock to identify winning stocks. Simultaneously, they must mitigate individual security risk and avoid picking a stock that blows up. Managers of ETF mutual funds can spend their time providing better portfolio management, risk mitigation through hedging, and idea generation since they are buying ETFs, which are more broadly diversified than an individual equity issue. In general, these ETF mutual funds offer better risk/reward characteristics than an equity mutual fund, namely lower standard deviations and betas.

Another possible application of the ETF mutual fund is within 401(k) plans. ETFs as standalone vehicles may never become mainstays in 401(k) plans, but since mutual funds are already the investment vehicle of choice, wouldn't an ETF mutual fund be an innovation over the traditional equity and fixed income mutual funds that are already in these plans' investment lineups?

So where does the financial adviser or investor begin to look when selecting an ETF mutual fund for their portfolio? If your objectives are capital appreciation, income generation, or absolute return, there are a number of robust options in the ETF mutual fund genre that should be on the radar. For starters, the **Currency Strategies Fund (FOREX)**, managed by Sarasota Capital Strategies utilizes currency-based and metals-based ETFs such as **PowerShares US Dollar Index Bullish (UUP)**, **PowerShares DB Gold (DGL)**, **WisdomTree Dreyfus Indian Rupee (ICN)**, **CurrencyShares Australian Dollar (FXA)**, and

others. Ian Naismith, a portfolio manager of FOREX, had the following to offer:

For advisers who want to use alternative choices and complete their allocation to all asset classes, the Currency Strategies Fund is the most comprehensive mutual fund for currency exposure. This agile and technically managed fund trades ETFs that track commodity currencies such as Australia, Canada, and New Zealand; emerging market currencies such as the BRIC countries, Mexico, and South Africa; European currencies such as Switzerland, Sweden, Britain, and the Euro; and up to a 10% position in gold. One unique feature of the Currency Strategies Fund not found in any other currency mutual fund is that it also can invest up to 100% in the **US Dollar Index** -- so whether the US Dollar is strong or weak, the fund goal is to profit in either scenario. This approach, along with profit taking, has garnered a respectable return one year for the fund after inception while the Euro and the US Dollar Index have declined in the same time frame. Another unique feature is the fund can retreat to 100% cash equivalents or cross-hedge to sidestep extremely volatile markets. This strategy protected currency allocations in the fourth quarter of 2008 when the fund managers used it in private client accounts. The fund managers chose a mutual fund vehicle to substantially reduce costs and increase flexibility for such a complete strategy. Since it's impractical for an adviser to contemplate using 20+ different currency ETFs in separate account management, the Currency Strategies Fund is a one-stop solution for holistic currency exposure and offers a non-correlated, low volatility addition to portfolios. The fund managers recommend that advisers strongly consider alternative asset classes and make appropriate allocations to the fund to round out portfolios.

The **Aston/Smart Portfolios Dynamic Allocation Fund** (ASENX) also falls in this category, and fund manager Bryce James spoke to me about the "dynamic asset allocation model" that is the linchpin to the fund's methodology.

Instead of being stuck in a stagnate "lifestyle" or "target date" fund that leaves you in an aggressive strategy in down markets or a conservative strategy in up markets, the Smart Portfolios advanced methodology shifts between risk categories as market conditions change. Their goal is to place investors at the true optimal asset mix, a mix that constantly shifts as the risk/reward trade-off of the underlying ETFs change with the markets.

And according to the website of the distributor of the fund, the fund managers "use a proprietary mathematical process to select ETFs across a wide variety of asset classes -- including equities, fixed income, international, and commodities. The goal is to create an optimal portfolio designed to produce returns in excess of its blended market benchmark with an equal or lesser amount of risk."

Paul Frank, of Avimore Asset Management, the manager of the **ETF Market Opportunity Fund (ETFOX)**, had this to offer about his ETF mutual fund:

The ETF Market Opportunity Fund does all the analysis and screening, so, investors can access all the benefits of a carefully constructed portfolio of ETFs without having to be ETF experts. ETFOX is a core, multi-cap strategy designed for investors who prefer the convenience and familiarity of mutual funds. As an actively managed mutual fund, ETFOX has the ability to consider opportunities in any sector or commodity, so long as the potential of that index justifies each unit of projected risk. Although the fund is typically only invested in 10 to 20 carefully selected ETFs, those positions represent exposure to almost 1,900 underlying stocks. It's also worth noting that ETFOX currently has a five-star overall Morningstar rating, and a 5-year+ track record.

Furthermore, the Smart Growth Mutual Fund family run by portfolio manager Kevin Mahn of Hennion and Walsh is another set of offerings in the ETF mutual fund arena, including **Conservative** (LPCAX), **Moderate** (LPMAX), and **Growth** (LPGAX) funds. According to Mahn, Hennion and Walsh has an exclusive arrangement with Lipper Optimal Indices, where Lipper actually picks the ETFs and ETNs within the portfolios and the fund manager aligns these ETFs in such a way in the portfolios in order to provide for optimal growth while staying within a certain band of risk measured by standard deviation. Mahn continued:

After the initial screening process has been completed, the field of ETPs, which amounts to roughly 839 total ETPs right now, according to the Investment Company Institute, is narrowed down to approximately 250 to 260 ETPs. Lipper then runs a statistical routine called "factor analysis," which in layman's terms attempts to identify the smallest number of ETPs that explain the day-to-day behavior of the larger pool of remaining ETPs. In turn, this narrows down the pool of ETPs to somewhere between 50 and 60 ETPs. Finally, following a modern portfolio theory approach, Lipper runs a mean variance optimization routine to arrive at three different distinct target risk-oriented portfolios -- actually five since they have five Optimal Indices -- to stay within a certain band of risk that they believe will help to provide for optimal risk-adjusted return potential over the next three-month period.

I think 2008 was an excellent test case for how well this particular methodology can hold up -- and did hold up -- in an extremely volatile market environment. As we all likely know by now, 2008 marked one of the worst annual performances in the history of the US stock market. However, it didn't end there as the first quarter of 2009 represented the worst quarterly performance in US stock market history as measured by the **Dow Jones Industrial Average**. Despite these extremely volatile markets, for the calendar year of 2008, our conservative fund (LPCAX) lost approximately 7.7%; our moderate fund (LPMAX) lost approximately 8.8%; and the most aggressive fund in our SmartGrowth™ family of funds, the growth fund (LPGAX), lost approximately 18.3%. To put this in perspective, the S&P 500, which is widely considered as a barometer of the US stock market, lost about 37% in 2008. While we are never proud of losing money, I believe that an extreme test like the one that we were presented with in 2008 shows just how well the methodology can hold up when downside volatility is at its fiercest.

In conclusion, I ask you to consider that back in 1995 there were only two ETFs even in existence, and now there are over 839 that allow investors to access virtually any asset class or sector within the market that they want to on a transparent, tax-efficient, and relatively low-cost basis. The question then becomes, for individual and professional financial advisers, how best to assemble the various ETPs to meet each of their client objectives. In this regard, I encourage each of these advisers or individual investors to consider the SmartGrowth Mutual Funds, which could provide them with a packaged product solution to access the different ETFs and ETNs available in the US markets that meet the Lipper criteria within a portfolio that strives to stay within their own selected band of risk tolerance.

The **Day Hagan Tactical Allocation Fund** (DHAAX) utilizes a "quantitative, model based framework to define asset allocation" and invests in equity and fixed income ETFs such as **iShares Russell 1000 Value** (IWD), **iShares Russell 1000 Growth** (IWF), **Vanguard Pacific Regions** (VPL), **iShares Barclays Aggregate Bond** (AGG), and others.

A handful of other ETF mutual funds are available to advisers and investors alike, but the managers of these products weren't available for specific comments about their methodologies. These include the **Aston/New Century Absolute Return** (ANENX) and the **Giant 5 Total Index System Investor** (INDEX).

Since a wide array of asset classes and investment styles using ETFs can be accessed through these ETF mutual funds, I encourage readers to do some additional research on the funds themselves, as it's very possible that the investor may be able to build a portfolio for themselves utilizing more than one of these mutual funds for risk-adjusted outperformance against the benchmarks.

An Investor should consider the investment objectives, risks, charges, and expenses of the ETF Market Opportunity Fund carefully before investing. The risks associated with the Fund, detailed in the Prospectus, include risks of investing in Exchange Traded Funds (ETFs), the risks of investing in small and medium sized companies and foreign securities which may result in additional risks such as the possibility of greater price volatility and reduced liquidity, fluctuations in currency exchange rates, and political, diplomatic and economic conditions as well as regulatory requirements in foreign countries. There also may be risks associated with the Fund's investments in fixed income securities, significant investment in a specific sector, non-diversification, and high portfolio turnover. The Prospectus contains this and other information about the Fund. To obtain a Prospectus please call the ETF Market Opportunity Fund at 800-239-9136. The prospectus should be read carefully before investing. Fund distributed by Rafferty Capital Markets, LLC.

Morningstar Ratings™ are based on cost and risk-adjusted 3 and 5-year returns. Past performance is no guarantee of future results and ratings are subject to change every month. Morningstar™ categorizes the ETF Market Opportunity Fund as "Large Growth". As of 3/31/2010, the "Large Growth" category included 1869 YTD funds, 1775 1-Year funds, 1547 3-Year funds, and 1276 5-Year funds. A "5 star" Morningstar rating indicates that a fund's risk-adjusted return measure is in the top 10% of funds in a category; "4 star" indicates the top 32.5% of funds in a category.

Investment in an exchange traded fund (ETF) carries security specific risk and market risk. Also, if the area of the market representing the underlying index or benchmark does not perform as expected for any reason, the value of the investment in the ETF may decline. In addition, due to transactions via market prices rather than at net asset value, the performance of an ETF may not completely replicate the performance of the underlying index. The Fund will indirectly pay its proportionate share of any fees and expenses paid by the ETF in which it invests in addition to the fees and expenses paid directly by the Fund, many of which may be duplicative. The Fund also will incur brokerage costs when it purchases ETFs. As a result, the cost of investing in the Fund generally will be higher than the cost of investing directly in ETFs.