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Boom to Bust and Back: Tech ETF SPDR Technology Select Fund Up 34% This Year; More-Reasoned Approach By NAT WORDEN

Investing in exchange-traded funds arrived on Wall Street over a decade ago, when technology stocks were wound up in a speculative mania and investors wanted an easy way to bet on momentum.

These days, ETFs offer a more-reasoned approach to investing in technology.

Dan Dolan, product manager for the Select Sector SPDRs line of ETFs at ALPS Distributors, said buying the SPDR Technology Select Sector ETF isn't about finding the latest highflier that will double overnight.



"This is about buying solid, dependable, well-established companies with steady cash flows that often pay dividends and trade at reasonable multiples," Mr. Dolan said. "Tech is also a cyclical sector that is bound to grow as the economy rebounds and companies start investing again."

The SPDR Technology Select fund is up 34% this year, compared with the Standard & Poor's 500-stock index, up 16% for the period.

But the fund's valuation still looks tame, trading at roughly 18 times Wall Street's earnings estimates for 2009, while the financial sector is trading at close to 25 times earnings, and basic materials are at 30 times earnings.

Mr. Dolan launched the Sector SPDRs, which carve up the S&P 500 into nine different sectors, while at Merrill Lynch in 1998.

Since then, ETF trading has exploded. Many products have come and gone, but Sector SPDRs remain popular for their simplicity, appealing to individual and institutional investors alike.

Mr. Dolan remains a believer. "Even when the S&P is trading flat over a long period of time, there can be huge capital flows between sectors, and the Sector SPDRs allow investors to benefit from that," he said.

Sector ETFs also provide investors with an easy way to stay diversified while acting on a macro observation or hunch.

"If I'm right about a theme, I don't have to be right about a specific company or worry about the credibility of a specific management team," Mr. Dolan said.

The SPDR Technology Select fund has about \$3.7 billion in assets tracking 85 tech and telecom companies. Its largest names include [Microsoft](#), [International Business Machines](#), [Apple](#), [AT&T](#) and [Google](#).

Like all ETFs, no one actively manages the fund, which is why its expense ratio is just 0.21%, a fraction of what the typical mutual fund usually costs.

While mutual funds disclose what they own only on a quarterly basis, ETFs are fully transparent, so at any given time an investor can view its components and how they are weighted in the index.

"There are no tricks here," Mr. Dolan said. "If you believe there's a manager out there who is superior to the market, then their open-ended fund is the way to go. We're not trying to outperform anything, we're just delivering the index that the investor wants."

If it does well, he said, "then the investor is going to do well."

ETFs also allow instant trading, so investors can move in and out of them throughout a trading session. But with this freedom comes the rub: Investors pay a fee to buy an ETF and they can rack up high costs if they trade in and out of them on a short-term basis.

Some skeptics like John Bogle, founder of Vanguard Group, have skewered ETFs for encouraging short-term trading in stocks that has fueled a series of speculative bubbles. But even Mr. Bogle has conceded that a well-diversified ETF that is held over time can be a good investment.

"We leave the decision about an investor's time horizon up to the investors themselves," Mr. Dolan said.

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