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Information, Please

Research firms battle to be the place to go for investors looking to learn more about ETFs

By IAN SALISBURY

The race is on to become the Morningstar of ETFs.

Exchange-traded funds have been one of the fastest-growing corners of the fund business, grabbing roughly $1 for every $2 that flowed into conventional long-term mutual funds in 2010. But it's not just fund companies that are sniffing opportunity.

Journal Report
Read the complete **ETFs report.**

Media and research firms from Standard & Poor's to IndexUniverse are competing to be the chief supplier of information to ETF investors, much the way Chicago-based Morningstar Inc. won over mutual-fund investors a generation ago. Amid the scramble, competitors including Morningstar itself have launched a slew of online tools, many of them free, such as rankings and search engines that help compare the hundreds of ETFs available.

The rivals have their work cut out for them. ETFs' complex mechanics—the funds typically resemble index mutual funds, yet trade throughout the day like stocks—make analyzing and ranking the investments tricky. Some aspects of ETFs' performance are unique, like how consistently their trading prices match the prices of their underlying holdings throughout the day.

Big Names

Making the Grades

Here is how some research firms rate ETFs. While these companies all ultimately hope to earn subscription fees for more-detailed research, some make basic ratings available free on their websites.

IndexUniverse

indexuniverse.com

TYPE OF RATING: Three separate scores for "efficiency," "tradability" and "fit" range from 0 to 100%

BASED ON: Factors like investment fees, trading costs and how closely funds match benchmarks

FREE RATINGS? No

MORNINGSTAR

morningstar.com

TYPE OF RATING: Star ratings from 1 to 5

BASED ON: Three-, five- and 10-year risk-adjusted performance vs. similar funds

FREE RATINGS? Yes

Marco Polo XTF

XTF ETF EXPERTS

xtf.com

TYPE OF RATING: Score from 0 to 10

BASED ON: Factors including tracking error, trading and investment costs, and six-month returns

FREE RATINGS? Yes

STANDARD & POOR'S

standardandpoors.com

TYPE OF RATING: Three grades: overweight, market weight and underweight

BASED ON: Ten factors, including S&P stock analysts' opinions about funds' underlying holdings

FREE RATINGS? No

Note: IndexUniverse product is still in development and is scheduled to be rolled out later this year. Source: WSJ research

ETF providers including BlackRock Inc., State Street Corp. and Vanguard Group have joined the fray, loading their websites with far more sophisticated analysis and tools than most conventional fund companies offer. Brokerage firms want to be seen and heard, too. Analysts at Morgan Stanley Smith Barney and Wells Fargo Advisors, for example, issue regular ETF market reports.

Morningstar, meanwhile, isn't resting on its laurels. It has made a number of improvements in the way it covers ETFs in recent years. The company now has 16 analysts who research ETFs, up from two just four years ago. It also has upgraded its website, adding up-to-the-minute price quotes and detailed information about bid-asked spreads.

In February, the company began calculating what it calls "total cost analysis." It starts with fund expenses, but also looks at whether a fund makes money by lending its underlying shares to short sellers—a frequent ETF practice—and what the fund does with that money. Another focus is liquidity: to what degree the share price will suffer when large blocks are sold.

While the new Morningstar tools are geared toward institutional traders and aren't available on the company's free website, morningstar.com, the company expects to incorporate findings from using those tools into its retail research.

Scott Burns, the head of Morningstar's ETF research team, says the company isn't done, either. The next step is to integrate the research of Morningstar's stock analysts. The aim, says Mr. Burns, is not just to gauge which technology- or growth-focused ETF is best, for example, but also on whether a focus on technology or growth stocks is a good strategy in the first place.

"You have to be able to answer both types of questions," he says.

Newer Entry

The most recent challenger to Morningstar is in many ways an unlikely one. Until ETFs hit the mainstream, Index Publications LLC was a tiny trade publisher. Its flagship title, the Journal of Indexes (which it purchased in 1999 from Dow Jones & Co., publisher of The Wall Street Journal), runs wonky articles on topics like how to define "midcap" stocks.

With ETFs putting a brighter spotlight on index investing, the company—often known by its Web moniker, IndexUniverse—has worked hard to win a larger audience. It has hired additional reporters and started a blog that focuses on more mainstream investing issues.

One of IndexUniverse's biggest efforts is a free website feature, introduced in March, that helps investors search for ETFs and related exchange-traded notes, or ETNs, in ways that aren't always possible on Morningstar's basic site.

One example: The tool allows investors to directly compare 11 products that target India, such as the Market

Vectors Indian Rupee/USD ETN and the WisdomTree India Earnings ETF. Morningstar classifies the rupee fund in a currency category and the WisdomTree ETF in an Asia/Pacific stock category that also includes funds focused on Australia and South Korea.

"It's a different perspective," says Matt Hougan, president of ETF analytics for IndexUniverse.com.

Name recognition generally isn't a problem for Standard & Poor's, the McGraw-Hill Cos. brand famous for publishing the S&P 500 stock index and rating thousands of bonds. But the company, which started marketing its ETF research in 2009, wasn't necessarily known for fund research.

The result: a focus on ETFs' underlying stocks, rather than the funds themselves. S&P grades ETFs based on a blend of 10 criteria, including a tally of its equity analysts' opinions about each of an ETF's stock holdings; a separate tally of its credit analysts' opinions about those companies' financial health; and computer-driven measures such as scores tied to earnings and dividend growth. S&P accounts for some fund-oriented factors such as investment fees and trading costs as well. But it largely ignores three-, five- and 10-year returns.

A few caveats to keep in mind: S&P doesn't rank bond ETFs, because its methodology is so closely tied to its stock research. The company also makes comparatively little information available to small investors free of charge. The research is largely geared toward financial advisers, but some individual investors may have access to it through discount-brokerage accounts, an S&P spokesman says.

Tough Market

Winning a big following among investors for ETF research can be tough. New York-based Marco Polo XTF Inc. launched its own ETF research website, xtf.com, in 2007. Among the site's innovations was one of the first attempts to help investors quantify the trading costs known as bid-asked spreads. Since then, XTF has hit some bumps, shutting down other business projects and changing ownership.

Chief Executive Mel Herman declines to specify how many subscribers pay for the company's "premium membership" but highlights successes such as a deal to make some of the company's research available through Fidelity Investments' retail brokerage.

"We're out there," he says. "We have a small marketing budget. We're not a household name, but we will be."

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