



Real Estate
ETFs

Exchange Traded Funds Overview:-

Exchange Traded Funds or ETFs for short are portfolios that contain various types of financial instruments that track the returns of an underlying asset such as indices, commodities, bonds and equities.

Exchange Traded Fund shares are traded like common shares in exchanges and their prices can change throughout the day depending on the trading activities, supply and demand. These shares are tradable with various return multipliers of the return of the underlying asset, as the Exchange Traded Fund itself doesn't try to outperform its corresponding asset but to replicate its performance. Unlike Mutual Fund, Exchange Traded Funds offers higher liquidity and lower fees making them more attractive for individual investors.

Real estate ETFs Overview:-

Real estate ETFs are funds that invest in shopping centers, houses, hotels and other commercial real estate and they are traded on exchange same as Stocks and they are considered alternative investments which can be used in the investor's portfolio.

Let us imagine that you want to invest directly in property or area where prices might boom in the next few years, but you do not have enough capital to buy/invest in house/property that you want or might generate the profit that you want. So what you do in this situation?

Real Estate ETFs provides you the vehicle toward it. It allows you to partially invest in these houses/property. Therefore, you can buy 100 shares or 1000 shares in real estate ETF that invests in these houses/property or else and you will generate a stable profit form dividends or gain from the increasing price of the share. Below we will cover other advantages for Real Estate ETFs.

Real estate ETFs Pros and Cons:-

Advantages:-

- When the economy face inflation most investment securities are negatively impacted, but inflation tend to impact real estate positively and real estate income increase faster during inflation periods, so Real Estate ETFs can be used as hedge for inflation

- As we said in the previous point, real estate can be used as hedge strategy so it provides more diversification in the investor's portfolio. Another diversification advantage, real estates have low correlation with stock and other assets.
- Investing in Real Estate ETFs can enhance your portfolio Performance. How? Let us take a simple example; when real estate ETF wants to invest in house/property they might first want to renovation, this will increase the value of house/property, which will lead to higher ETF share price!
- Another advantage, Real Estate ETFs give you the opportunity in invest in commercial, houses and other real estate in another country this opens you the door for Global opportunities.

Disadvantages:-

Unfortunately there is nothing called perfect investment.

Investing in Real Estate ETFs have some disadvantages:-

- It is hard to find a Real Estate ETF that will fulfil your investment desire. For the example that we took before, you want to invest in a specific area, but you probably cannot find a Real Estate ETF that invest in the same area.
- Many Real Estate ETF are passive managed, so if the investor is aggressive or want to beat the market in his strategy, Real Estate does not!

Analyzing Investments and Top 10 Real Estate ETF's:-

Analyzing Investments:-

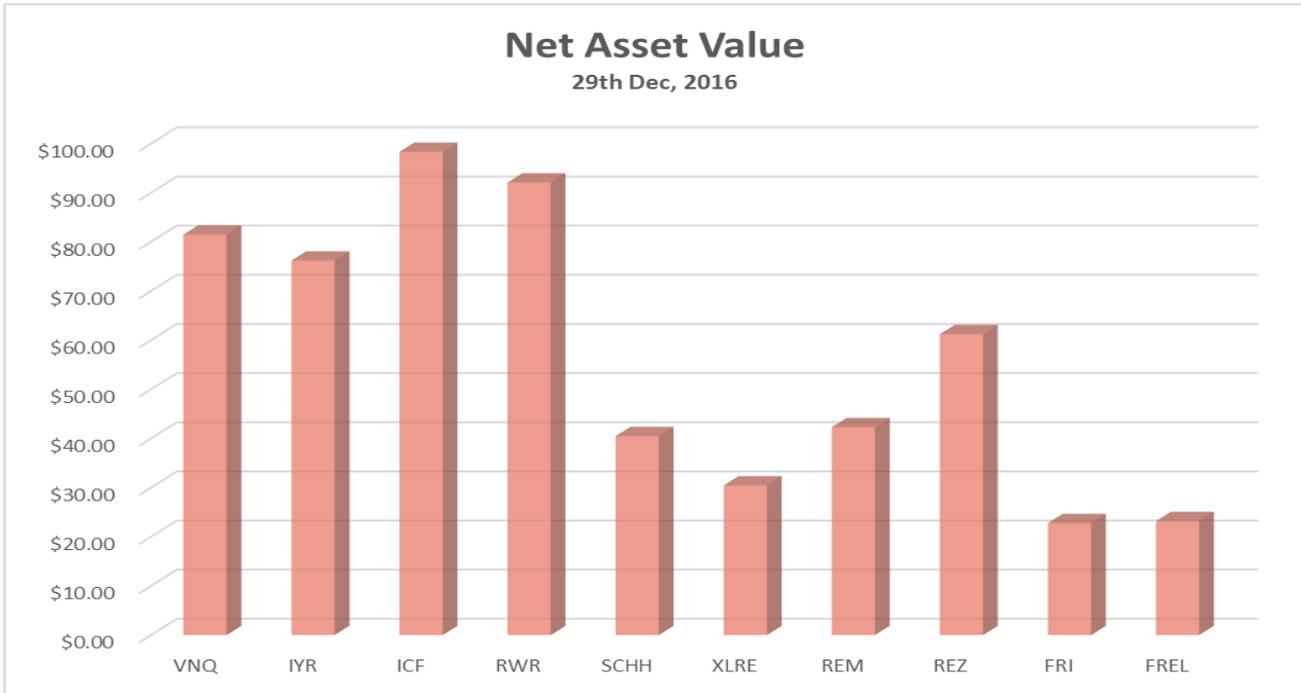
Real Estate ETF's can be analyzed same as normal companies, investors can use different methods including Ratios, News, Financial Statements trends and among other methods. The main two things while analyzing a Real Estate ETFs or comparing one to another are Net asset Value and Expense Ratio. Below are the Top 10 Real Estate ETFs.

Top 10 Real Estate ETF's:-

Below Top 10 Real Estate ETF's and their Expense Ratio and YTD.

ETF Name	Symbol	Total Assets \$Billion 29th of Dec, 2016
Vanguard REIT ETF	VNQ	\$31.838
iShares U.S. Real Estate ETF	IYR	\$4.208
iShares Cohen & Steers REIT ETF	ICF	\$3.382
SPDR Dow Jones REIT ETF	RWR	\$3.264
Schwab U.S. REIT ETF	SCHH	\$2.758
Real Estate Select Sector SPDR Fund	XLRE	\$2.332
iShares Mortgage Real Estate Capped ETF	REM	\$1.170
iShares Residential Real Estate Capped ETF	REZ	\$0.356
First Trust S&P REIT Index Fund	FRI	\$0.240
FIDELITY MSCI REAL ESTATE INDEX ETF	FREL	\$0.230

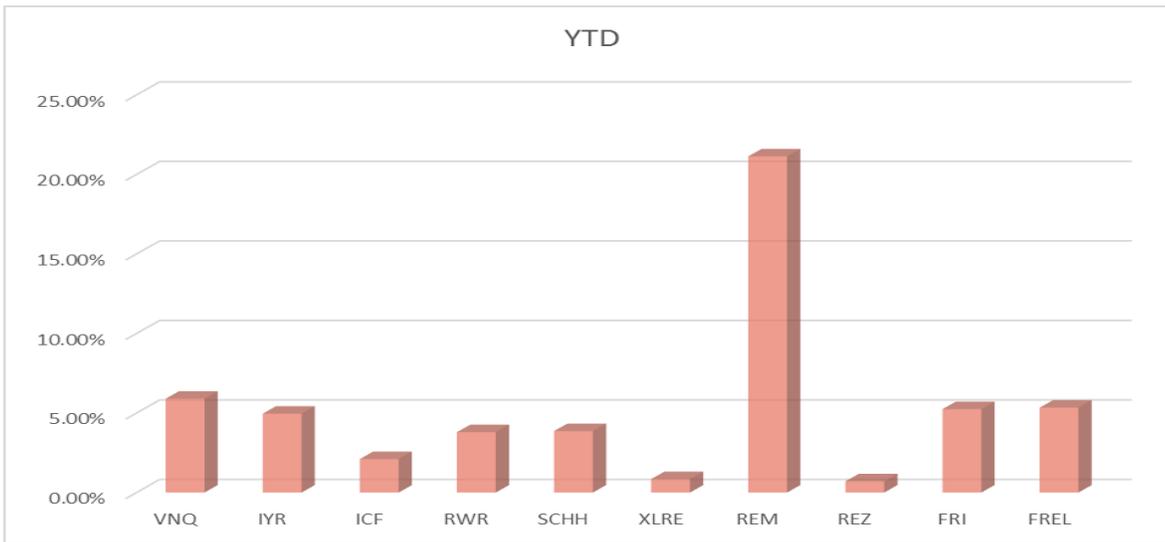
Net Asset Value: - Used by investors as comparison method to compare ETF with another and calculated by using ETF total assets and subtracting liabilities then divided by number of shares. However, investors might be confused between NAV and market price. Market Price is the price that investors buy or sell during the trading hours, but NAV's are calculated after the market close and shows the values of each share from the ETF assets



Expense Ratio: - Is one of the most important ratios the investor should pay attention to. Expense ratio is a percentage and calculated annually and shows how much the ETF costs and or the fund operating expense, but does not include commissions. Expense ratio is deducted from the investor's account annually. For example; if the ETF expense ratio is 0.35% this means if you invest \$10,000 you will pay \$35. Basically Expense ratio is how the fund is charging its investors. However, the average Expense ratio is 0.42% and they can range from 0.07% to 0.95%, this range can vary if the fund is passively or actively managed.



YTD Return: - Simply the Funds yearly return.



From the charts above, we can see that there is no connection between Total assets of the Fund and Expense Ratio or YTD. This shows that even if the Real Estate ETF has a High Total Assets this does not mean it will have low Expense Ratio or a high YTD

Other analysis:-

As we said before, Real Estate ETFs can be evaluated like a normal company. Investor can use different ratios to evaluate ETFs like;

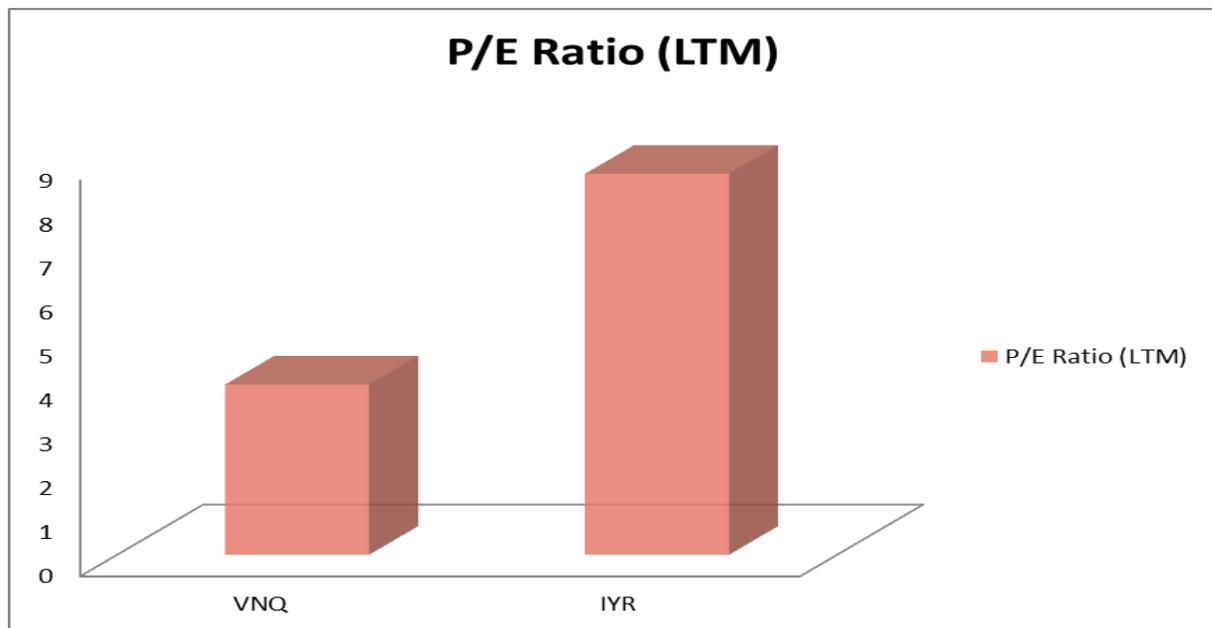
- Valuation ratios
- Management Effectiveness Ratios
- Profitability Ratios

Below we took Vanguard REIT ETF and iShares U.S. Real Estate ETF as comparison:-

Valuation ratios: - Used to compare ETFs or ETFs with its Benchmark or others ETFs to determine which one is better or which one is more attractive. Valuation ratios measure how cheap or expensive the business is, or we can say the investors opportunities in one company or security compare with others.

Valuation ratios includes-

- P/E ratio



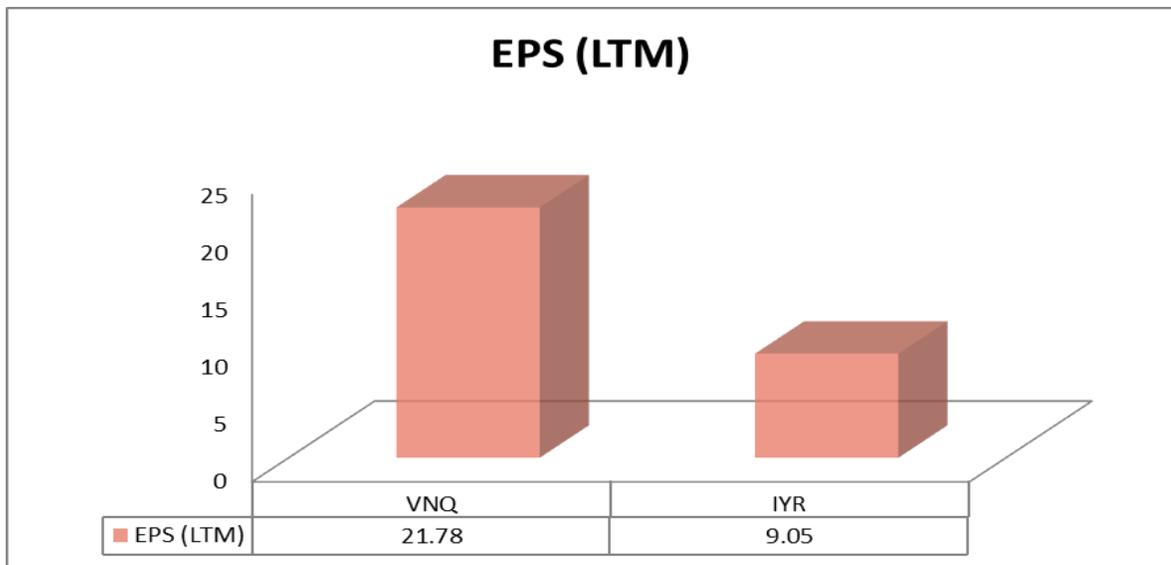
The P/E ratio, stock price/ Earnings per Share, indicates how much investors are willing to pay for a share or invest in the ETF in order to receive one dollar of earnings. Moreover, P/E ratio might reflect

the market/investors company growth expectations. From the chart above, we can see that VNQ P/E ratio is lower than IYR. This be justified by it high Earnings per share (we will revise later on).

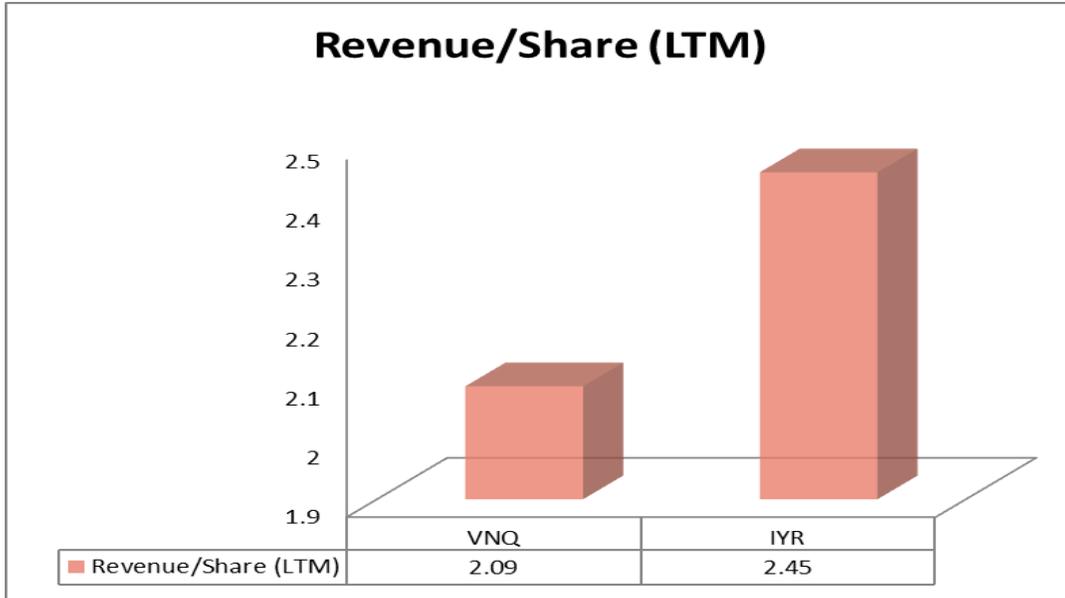
Profitability Ratios: - Profitability ratio can be easily explained the ETF ability to generate profit. In addition, it is used to measure the ETF’s performance

Profitability Ratios includes:-

- EPS
- Revenue Per Share



EPS, Earnings per share (EPS) are the amount of the ETF's profit allocated to each outstanding share. Earnings per share, serves as an indicator of ETF's profitability. EPS also shows how profitable ETF is on shareholders basis. VNQ EPS is much higher than IYR EPS. However, looking at EPS ratio as a growth indicator is not always true; the Pay-out ratio plays an important role to this too as how much the company is paying dividend compared with EPS and how much kept from EPS to invest in the future. For VNQ, Dividend payout-Ratio (LTM) is 8.43% compared with IYR Payout-Ratio 31.20%. This might means that VNQ is using most of its EPS to invest in the future compared with IYR.

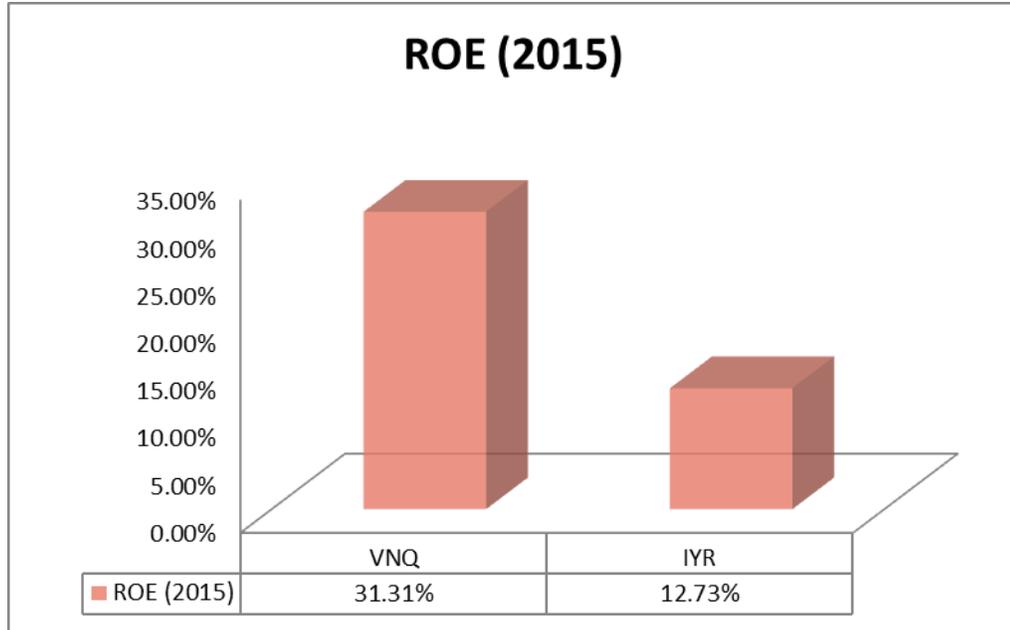


Revenue per Share ratio measures the revenue earned per share. The sales-per-share ratio is used to estimate the ETF business activities in comparison to share price, it's also important for traders who are concerned about the ETF sales. VNQ Revenue Per share is 2.09 lower than IYR which is 2.45. Investors prefer a higher ratio because they think the ETF is more attractive. This ratio could be used as a check for earning per share; however revenues can be manipulated in the income statement.

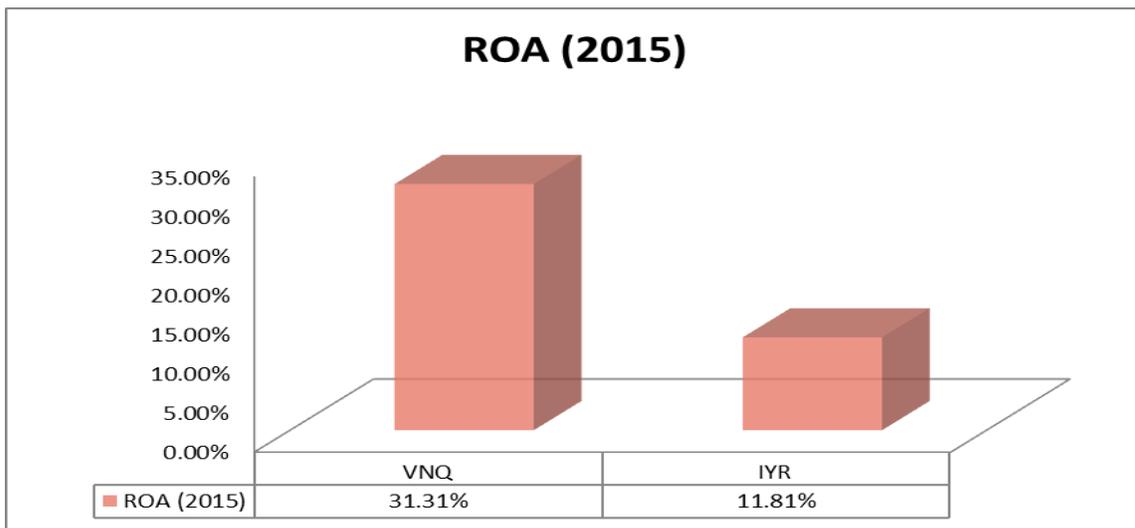
Management Effectiveness Ratios:- Management Effectiveness ratios is simply means to evaluate the management performance; like how well they are using their assets and money(equity) to produce a positive alpha.

Management Effectiveness ratios mainly include:-

- ROE
- ROA



Return on equity (ROE) measures a ETF's profitability by revealing how much profit a company generates with the money shareholders have invested. The higher the ratio percentage, the more efficient management is in utilizing its equity and the better return is to investors. VNQ Return on Equity 31.31% much higher than IYR which is 12.73%.

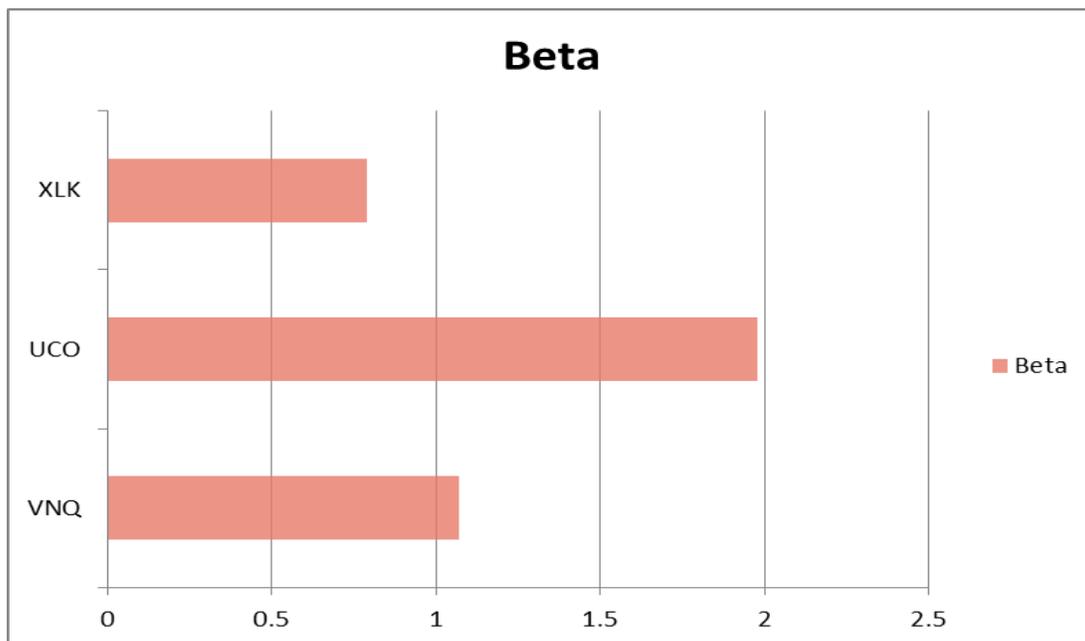


ROA Return on assets (ROA) is a pointer of how profitable the ETF is relative to its total assets. ROA gives the investor an idea of how efficient managements are utilizing its assets to generate earnings.

The higher the ROA ratio, the better, because the ETF is earning more money on less investment. From the chat, we can see that VNQ ROA is 31.31% much higher than IYR ROA of 11.81%. This can be justified by VNQ high asset compared with IYR.

Beta Comparing:-

Below we took Vanguard REIT ETF (VNQ) Real Estate ETF, ProShares Ultra Bloomberg Crude Oil (UCO) Oil ETF and Technology ETF each one with its index.

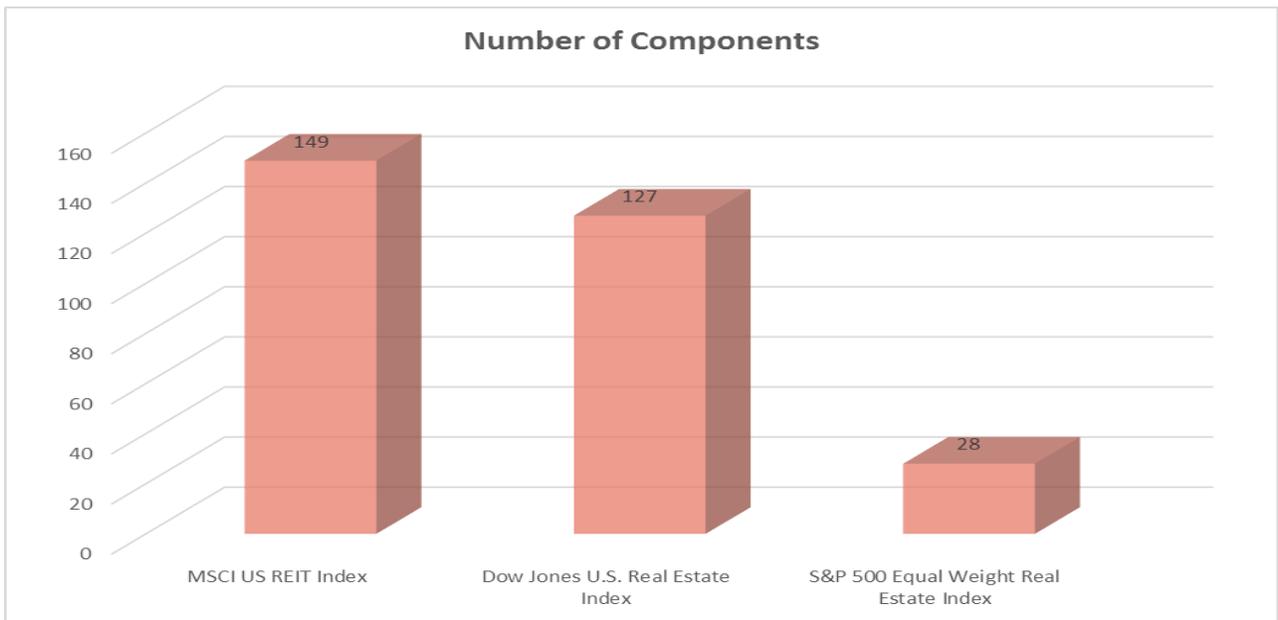
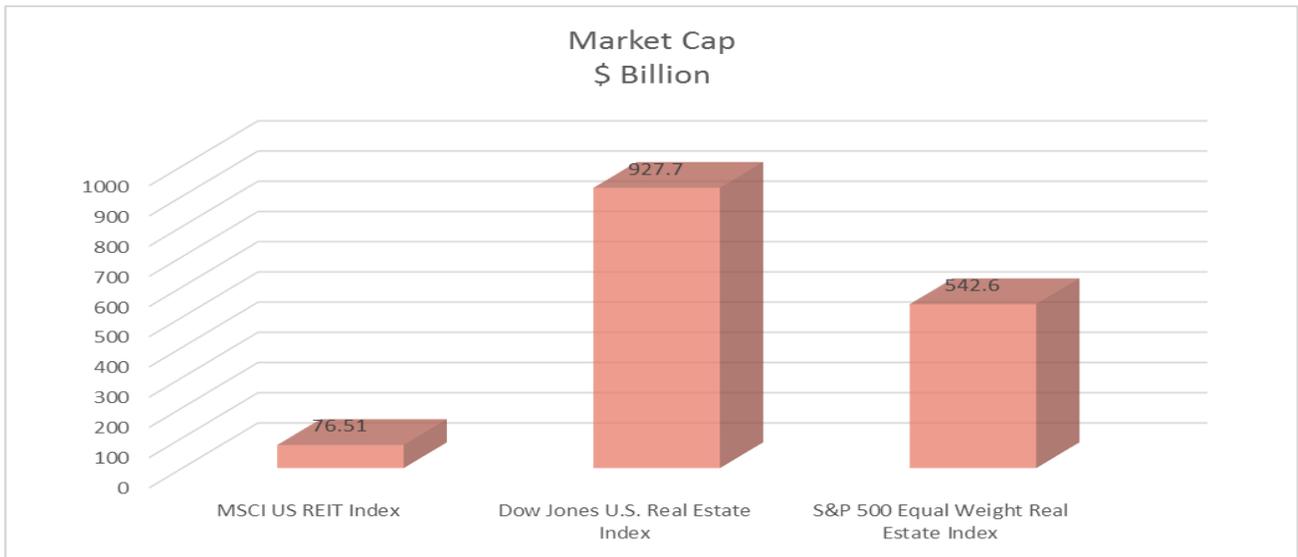


This can be added as advantage for conservative investors, as VNQ beta is not higher than the index like UCO and it's not lower than the Index like XLK which means that it's not risky as the others

- Real Estate ETFs use different indices as Benchmark these could be global or U.S indices, below we take few examples and show their Market Capitalization and Number of Components.

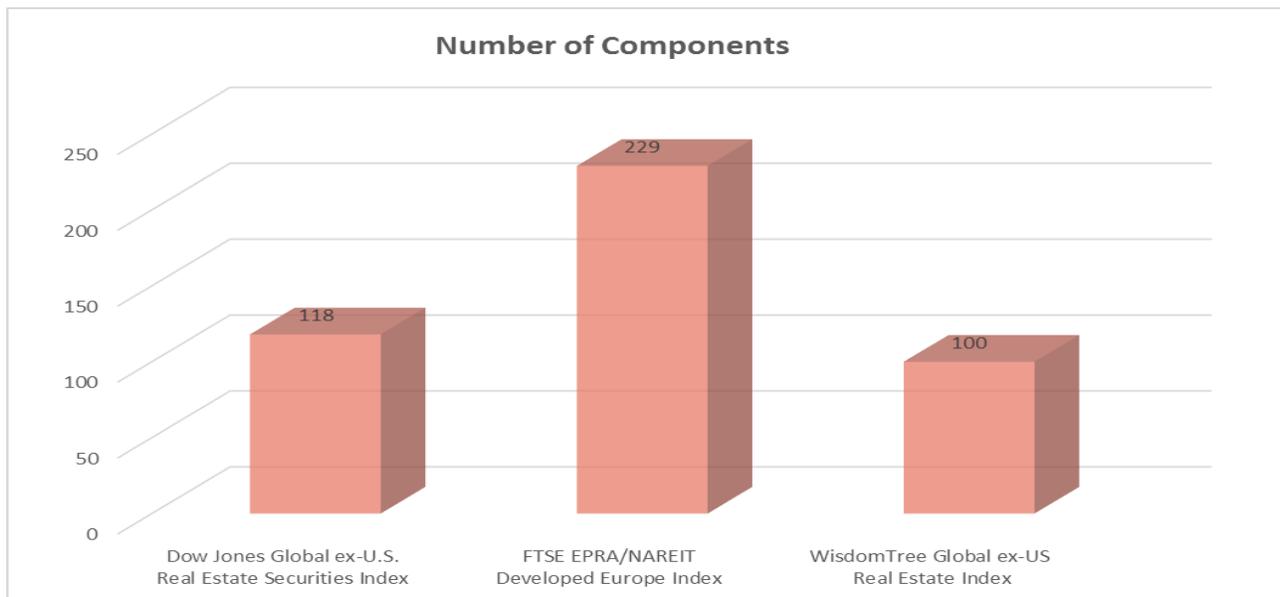
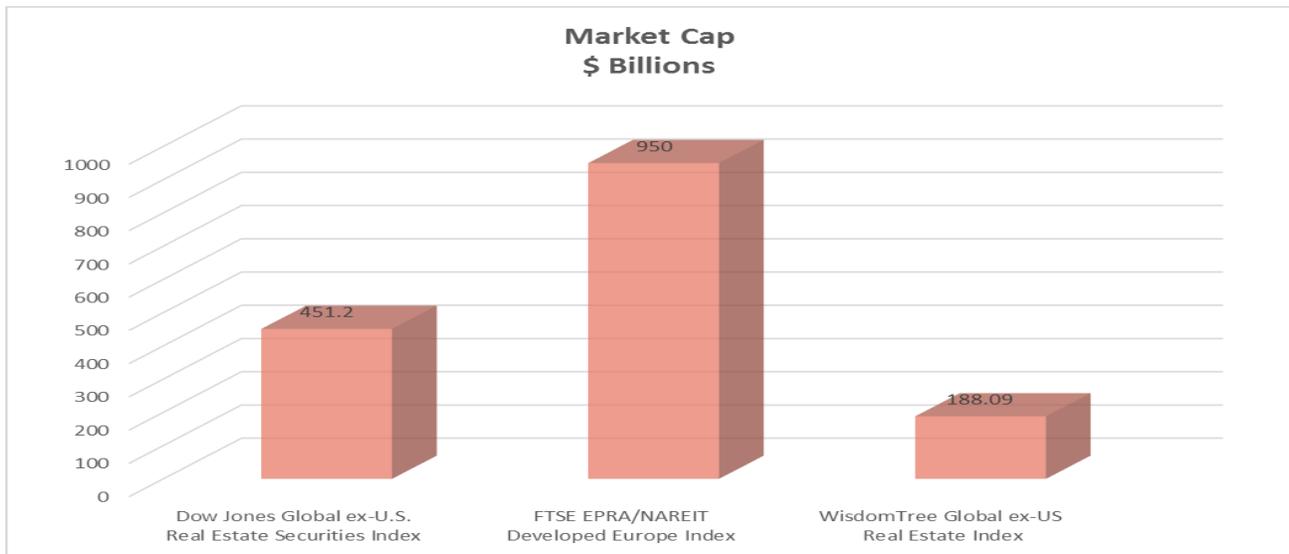
Example of U.S real Estate ETFs indices/ Benchmarks:-

- MSCI US REIT Index
- Dow Jones U.S Real Estate Index
- S&P 500 Equal Weight Real Estate Index



Example of Global Real Estate ETFs Indices/Benchmarks:-

- Dow Jones Global ex-U.S. Real Estate Securities Index
- FTSE EPRA/NAREIT Developed Europe Index
- WisdomTree Global ex-US Real Estate Index



Conclusion

Exchange Traded Funds or ETFs for short provides great investment opportunities due their vast range of investable fields such as equities, currencies, indices, commodities and even entire industries. Moreover these investment opportunities are expanded even more by availability of short selling and Leveraged positions, as well as their tax-efficiency and liquidity.

As we said before, Real Estate might provide a good hedge strategy for the investor. However, Real Estate ETF's need more attention and more study compared with normal company, because Real ETF's invest more in Real Estate, land and other tangible assets which need more attention. The Investor must study the market and the assets that the Real Estate ETF's might invest in or already invested in and of course not forgetting the ETF's Company fundamentals, ratio and technical after than the investor can identify his opportunities.

Sources

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