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ETFs may be down, but they're not out

As broad-based funds gyrate with the markets, look to specialty products to fill RRSP needs

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Exchange traded funds offer performance that tracks today's rough-and-tumble world of major indexes. If investors can stomach the volatility, advisers still recommend these low-cost funds as an efficient way to invest in RRSPs for the long term.

"It's not a comfortable time to invest because it's been so turbulent," says Warren Baldwin, a financial adviser for T.E. Financial Consultants Ltd. in Toronto who occasionally recommends ETFs for clients. "But markets have very short memories, and in a couple of quarters things may look a lot different."

If you can handle the ups and downs, ETFs - securities linked to the performance of a market index or a basket of assets - might be for you.

"They are products that are very empowering for the self-directed investor in Canada," says Duncan Hannay, president of E*Trade Canada, one of several discount brokerages that has seen increased ETF sales.

The main benefit of ETFs is that investors "can buy them at much lower cost, with the lower expense ratios, and without any of the back-end charges or some of the limitations of traditional mutual funds," Mr. Hannay says.

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SPECIALTY FUNDS

Investors interested in a specific investment theme, geographical area or business sector can invest in a specialty fund, though most advisers recommend against tipping the balance in an RRSP portfolio more than 5 to 10 per cent in such a way.

If you have a long-term interest in environmentally sensitive products, for example, Larry Berman, the portfolio manager for Toronto-based ETF Capital Management, suggests the PowerShares WilderHill Clean Energy ETF.

It invests in manufacturers and suppliers of clean energy products such as solar panels and windmills. "It's a longer-term theme you may want to be in," says Mr. Berman, who invests in it occasionally.

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