

# ***If You Could Invest in Only One ETF for the Next 12 Months***

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*... A Good Bet Would Be the iShares FTSE/Xinhua China 25 Index Fund*

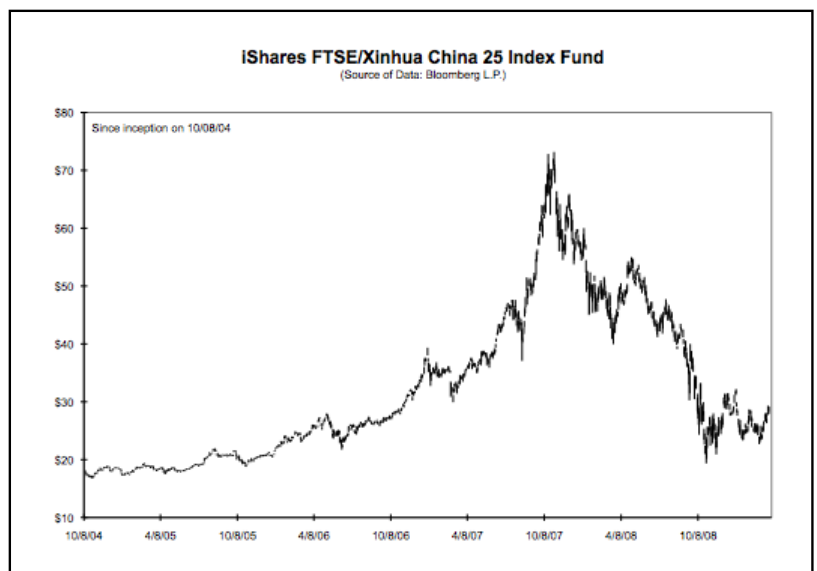
## March 25, 2009

Chinese stock prices, as represented by the Shanghai Composite Index, fell 65 percent during 2008 in response to the global economic slowdown and the worldwide financial crisis. Yet China's economy continued to grow at a fast pace. For example, China's total output of goods and services (gross domestic product, or GDP) grew 6.8 percent during 2008, while the economies of the world's developed countries fell into a recession.

In spite of the 2008 worldwide credit crunch and some severe natural disasters that occurred in China during 2008, China's industrial production rose 5.7 percent last year and the country's retail sales rose a whopping 19 percent compared with the previous year. China's industrial output continued to expand during the first month of 2009, rising 11 percent compared to the same month a year ago.

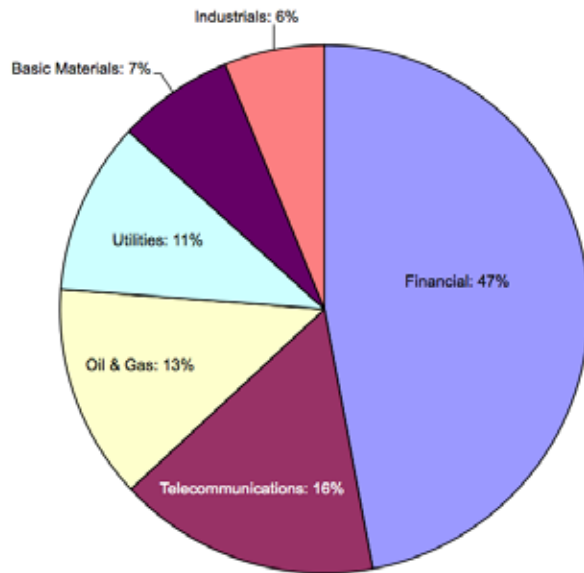
Meanwhile, the inflation-adjusted incomes of Chinese workers rose at a 15.4 percent year-over-year rate during the most recently reported quarter (Q3 2008).

My research indicates that China's economy will to continue expand at a healthy pace during the months and years ahead. I therefore expect Chinese companies to continue to grow their sales and earnings at a fast rate. Yet, the price-to-earnings ratio for companies



### FXI Sector Allocation

(Source of Data: Bloomberg L.P.)



that compose the Shanghai Composite Index had fallen to only 18 as of March 25 from 27 on the same date a year ago. Those factors suggest that the equities of many Chinese companies now can be purchased at bargain prices.

One of the better ways to invest in fast-growing Chinese companies is to buy the **iShares FTSE/Xinhua China 25 Index Fund (FXI)**, which is made up of 25 Chinese equities of companies operating primarily in the financial, telecommunications, and energy sectors, as well as firms in the utilities, basic materials, and industrial sectors.

Those companies include China Life Insurance, the country's largest life insurance company, which provides annuity products and life insurance for more than 90 million individuals and groups; China Mobile, the world's largest and fastest-growing wireless service provider, with 415 million customers and a 68 percent share of the mainland Chinese mobile market; PetroChina, which produces two-thirds of China's oil and gas, owns or has interests in more than 17,000 gas stations, and operates 26 refineries and 12 chemical plants; Huaneng Power, one of China's largest independent power producers, which operates electrical power plants in 12 of China's 22 provinces; and China Railway, which provides construction and engineering services to other companies throughout China that build the country's railways, highways, bridges, and industrial facilities. FXI also holds the securities of several large Chinese banks and wireline telecommunications companies.

Except for China Life Insurance and China Telecom Group, all of the fund's top 10 holdings were trading at very reasonable prices as of March 25. Meanwhile, seven of the fund's holdings were trading at a substantial discount to their expected future earnings growth, as you can see in the table (next page) by reviewing those companies' PEG ratios. In total, 55 percent of FXI's holdings had a PEG ratio of less than 1.0 as of March 25.

For those of you that aren't familiar with the PEG ratio, this is a statistic that compares a company's earnings multiple (P/E ratio) with the company's expected earnings growth rate. Hence, the PEG ratio illustrates a company's value in terms of its future earnings capacity, or in other words, the market price of a company's publicly traded stock relative to the projected future earnings of its underlying company.

Stocks that have a PEG ratio of less than 1.0 are considered to be undervalued because they are trading at a price less than their expected earnings growth.

With 55 percent of FXI's holdings having a PEG ratio of less than 1.0, the iShares FTSE/



Xinhua China 25 Index Fund was clearly trading at a bargain price (as of March 25).

Looking forward, my research indicates that FXI will continue to be attractively priced at prices up to \$35. I therefore recommend investors planning to invest in only one ETF over the next 12 months to seriously consider buying the iShares FTSE/Xinhua China 25 Index Fund.

<b>FXI TOP 10 HOLDINGS</b> (As of March 25, 2009)		
<b>Company</b>	<b>Weight</b>	<b>PEG Ratio</b>
China Life Insurance	8.7%	3.54
Bank of China	7.9%	0.86
China Mobile	7.9%	0.81
Industrial & Commercial Bank of China	7.4%	0.71
PetroChina	6.0%	1.11
Ping An Insurance Group	4.9%	N/A
China Construction Bank	4.8%	0.55
China Telecom Group	4.6%	2.71
China Shenhua Energy.	4.3%	0.76
China Merchants Bank	4.1%	0.46

In light of the far-reaching actions that central banks around the globe have recently implemented to unclog the credit markets and to restore investor confidence in the worldwide financial system, my experience suggests that FXI may rally sharply over the ensuing months, due to its 47 percent allocation to financial institutions.

Although those measures might not have a direct influence on China's financial companies, my research suggests that those actions will positively impact investor confidence in the worldwide financial system and will therefore indirectly benefit China's commercial banks and insurance companies. That would be a very significant development, because the direction of stock prices is often determined more by investor perceptions than by underlying fundamental developments.

Given the Chinese government's plans to continue to expand its basic infrastructure, my research suggests that the longer-term outlook for FXI is also very favorable. I therefore would advise any investor to take a close look at the iShares FTSE/Xinhua China 25 Index Fund.