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Commodity, Forex ETFs Help WHM Capital In Stormy Mkt

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The phrases "commodities investments" and "risk averse" aren't often used together, unless it's to say the two are antithetical.

But investments in exchange-traded funds tied to the foreign exchange market and commodities have helped Columbia, S.C.-based money manager Bill McAfee protect clients from the stock markets' downside in recent quarters.

"It's really what's helped us weather the storm as U.S. equities have taken a beating," said McAfee, who's president and chief investment officer for WHM Capital Advisors.

The two ETFs, CurrencyShares Australian Dollar Trust (FXA) and iShares S&P GSCI Commodity-Indexed Trust (GSG), have performed so well that WHM Capital has started taking profits and moving into other investments. ETFs are index-oriented mutual funds that trade on exchanges like stocks.

The CurrencyShares Australian Dollar Trust - a passive holding in Australian dollars - recently traded at \$94.87, down 0.9% on the day. The ETF had a 12.26% return year to date, as of Tuesday, according to Morningstar Inc.

"The interest rates in Australia are higher than in the U.S., so we get a nice dividend on it, but at the same time, the Australian dollar has appreciated relative to the U.S. dollar over the past 12 months, so that's been a good holding for us," McAfee said.

The other ETF, the iShares S&P GSCI, tracks about two dozen commodities but is mainly focused on energy. It had a 22.99% return year to date, as of Tuesday, according to Morningstar. McAfee and John Barnes, WHM's financial analysis director, said the ETF's focus on oil has made it more volatile.

"It's gotten a little bit pricey, and we're concerned that oil and commodities, in general, probably aren't going to continue to run up at the same rate as they have," Barnes said. The ETF recently traded at \$65.18, up 1.8%.

As WHM takes profits on the ETFs, it has gradually bought some technology and financial stocks. Like other money managers, they've been wrestling with which financial stocks to own. They've gone with companies that aren't so directly tied to credit, as retail banking giants are.

Among top-10 holdings are Goldman Sachs Group Inc. (GS), Bank of New York Mellon Corp. (BK) and AFLAC Inc. (AFL).

"In financials, we've tried to stay with names that have something unique - either they're best in class or only in class," Barnes said.

Bank of New York's dominance in the custody business helps it generate "nice, healthy steady fee income," Barnes said. Goldman Sachs seems to be "consistently profitable in any type of market," while Aflac generates more than 50% of its sales in Asia, he noted. "So they're not really tied to the U.S. economy at all," Barnes said.

Among technology stocks, WHM Capital has been looking toward longer-term investments. "I think Microsoft right now is attractively priced, and we've been rebalancing into Microsoft," McAfee said. And Cisco Systems Inc.'s (CSCO) price relative to projected earnings growth is relatively low compared to peers, so that's another holding to which the firm has been adding. Microsoft Corp. (MSFT) shares were down 0.2% to \$26.07 in early afternoon trading Wednesday, while Cisco shares were down 1.2% to \$22.14.

Limiting risk and focusing on the long term are important for WHM Capital Advisors, which manages about \$35 million for wealthy individuals who are often private business owners. Owning a business has inherent risks, so clients are fairly conservative on the money management side.

"I had one client tell me recently, 'I'm already wealthy; I'm not looking for this money to make me wealthy. I'm just looking to not lose it,' " McAfee said.

The firm's separately managed accounts are based on any of five investment styles, ranging from income to aggressive growth. Accounts representing the bulk of WHM's business have at least \$500,000 invested and follow the growth style, which allocates 70% of invested funds to equities, 25% to fixed income and 5% to cash. Through June 30, the most recent date available, those accounts had a negative 3.5% return, compared with a negative 12.96% return for the Standard & Poor's 500 Index.

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