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EXCHANGE TRADED FUNDS

7 ETFs That Could Pan Out In '16

Money Manager Picks

Treasuries, gold miners, high-quality bonds and preferred stock favored

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FOR INVESTOR'S BUSINESS DAILY

Investors had to scrape for gains last year, with the S&P 500 ending nearly flat and six of its 10 sectors in the red. A rocky start to the new year has done little to inspire optimism.

Despite the headwinds, there may be opportunities for recovery.

Here are some ETFs that asset managers think are poised to bounce back in 2016.

Fixed-Income Favorites

Of ETFs that finished in the red in 2015, Alan Rosenfield, managing director and founder of Harmony Asset Management, finds **iShares 20+ Year Treasury Bond ETF**[TLT] to be one of the most compelling plays for 2016.

"Treasuries are the first place I would be looking, and the longer (the maturity) the better," he said. "I believe in a year we could have negative interest rates in the U.S. We have already seen them briefly on the very short end. The Fed is out of arrows. When they find the economy is slowing, another QE is going to happen, but they are going to have to try to do it differently."

He says investors with a greater tolerance for volatility may consider **iShares iBoxx $ Investment Grade Corporate Bond ETF**[LQD].

"If you are a little more aggressive, I'd be buying LQD," Rosenfield said. "There is no liquidity in the fixed-income markets, so it will have more risk than Treasuries."

Another ETF that Rosenfield sees setting up to recover is **Market Vectors Gold Miners ETF**[GDX].

"Miners underperform when gold is weak and outperform when gold is strong because of their leverage," he said. "We've noticed recently the miners are beginning to stabilize, even as gold has gotten weaker. Everybody printing money is going to have an impact on inflation sooner or later, and gold will respond."

Opportune Entry Points

David Vomund, president of Vomund Investment Management, says investors seeking income should consider **Alerian MLP ETF**[AMLP]. "It yields just over 10%, and shareholders avoid the hassles of K-1 (tax) forms," he said. "While this selection is volatile now, it should have a good second half of the year as the price of oil stabilizes or even rebounds some."

AMLP has pulled back more than 40% from a year ago amid a sector-wide rout of energy stocks.

"Especially hard-hit (last year) were master limited partnerships (MLPs), which were sold without discrimination and without investors understanding how they generate their income," Vomund said. "Most, especially those transporting natural gas, are fee-based, using long-term, take-or-pay contracts. They are not sensitive to commodity prices, have high yields, and in many cases have dividend growth ahead as pipeline capacity expands."

Vomund also sees a potential buying opportunity in dividend-focused ETFs. "The selling at the start of this year provides a good entry point," he said. "There are a lot to choose from, and we own several. We especially favor **Schwab U.S. Dividend Equity ETF**[SCHD] because of its low 0.7% expense ratio, and it trades commission-free for Schwab clients."

Preferred ETF Plays

Michael Pellegrino, a principal at Goldstone Financial Group, contends that **iShares U.S. Preferred Stock ETF**[PFF] can serve investors well in the current market environment. "It's primarily comprised of domestic stocks that pay good dividends," he said. "Given the lackluster returns we saw in the markets last year and some of the questionable trends we see going forward, dividends are attractive for the consistency of returns."

PFF currently yields 5.8%.

Pellegrino also likes **PowerShares Financial Preferred Portfolio**[PGF].

"It has a similar yield but with a heavier weight to financials," he said. "Looking out over the next year, those yields are pretty attractive."

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