

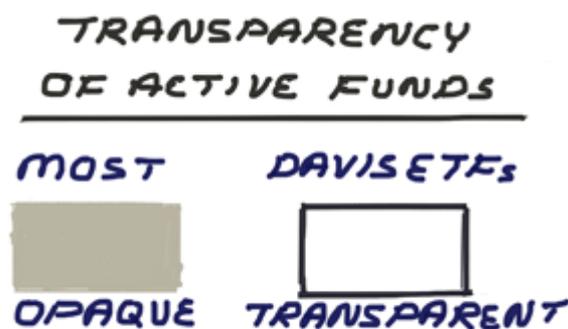
## A Simple Solution to Offering an Active ETF



Charles Rotblut, CFA  
AAIJ Journal Editor

Three new exchange-traded funds began trading today: Davis Select U.S. Equity (**DUSA**), Davis Select Financial (**DFNL**) and Davis Select Worldwide (**DWLD**). Normally such an event is not particularly noteworthy from our viewpoint. The launches of these funds are, however. They are actively managed equity ETFs based on strategies used for Davis Advisors' mutual funds, separately managed accounts and institutional funds. More importantly, they will follow the disclosure rules long used by index ETFs.

A bit of context is needed to understand why the launch of these funds is raising eyebrows. Actively managed ETFs remain relatively few in number. Most mutual fund companies have refrained from offering actively managed exchange-traded funds—particularly ETF versions of their equity-focused strategies. One particular hurdle has oft been attributed as the reason: transparency. Index (passive) ETFs disclose their holdings daily. Most mutual funds do not.



Attempts to provide a hybrid approach, meaning ETFs with reduced transparency, have generally not been successful. One platform that did pass the Securities and Exchange Commission's muster is Eaton Vance's NextShares. NextShares' exchange-traded managed funds provide limited transparency. Vanguard has its own platform and has filed to create ETF share classes for some of its actively managed funds. Last year, the SEC approved petitions from Bats Global Markets and the New York Stock Exchange for a streamlined process for listing actively managed ETFs. This was

viewed as a positive for the industry, but it's not clear that the approval resolved the transparency hurdle. **Continue Reading »**

---

## More on AAIL.com

- **An Inside Look at Exchange-Traded Funds** - Mutual funds and ETFs share many similar traits, but there are also significant differences between them.
  - **How to Measure the Skills of Your Fund Manager** - Davis Advisors' mutual funds tend to have lower R-square scores, which implies they truly are active as this article explains.
- 

## Highlights from this month's *AAIL Journal*

- **Downward Estimate Revisions Screen Tops Unconventional Year** - This month's *AAIL Journal* includes our annual review of the more than 60 stock screens featured on AAIL.com
  - **Stocks With the Largest Change in Earnings Estimates** - The 15 stocks with the largest positive and negative changes to their consensus earnings estimates.
- 

## The Week Ahead

The U.S. financial markets will be closed on Monday in observance of Martin Luther King Jr. Day. President-elect Donald Trump will be inaugurated on Friday. Even though it can be hard at times, it's best to separate your political views (favorable or unfavorable) from your investment decisions.

Fourth-quarter earnings season is underway, with 35 members of the S&P 500 scheduled to report. Included in this group are five Dow Jones industrial components: UnitedHealth Group Inc. (**UNH**) on Tuesday; Goldman Sachs Group (**GS**) on Wednesday, American Express (**AXP**) and International Business Machines (**IBM**) on Thursday, and General Electric (**GE**) on Friday.

The week's first economic reports will be the January Empire State manufacturing survey, which will be released on Tuesday. Wednesday will feature the December consumer price index, December

industrial production, the January housing market index and the Federal Reserve's Beige Book. December housing starts and building permits and the Philadelphia Fed's January business outlook survey will be released on Thursday.

Four Federal Reserve officials will make public appearances: New York president William Dudley on Tuesday, San Francisco president John C. Williams on Tuesday, Thursday and Friday; Minneapolis president Neel Kashkari on Wednesday; and Philadelphia president Patrick Harker on Friday.

The Treasury Department will auction \$13 billion of 10-year Treasury inflation-protected securities on Thursday.

---

## What's Trending on AAI

1. [Vanguard's Dynamic Spending Strategy for Retirees](#)
  2. [Model Shadow Stock Portfolio: New Additions, Plus Value Leads](#)
  3. [Why Buy Bonds If Interest Rates Will Rise?](#)
- 

## AAI Sentiment Survey

Bullish sentiment pulled back to a five-week low, but remained above 40% for the ninth consecutive week. [More about this week's results.](#)

### **This week's Sentiment Survey results:**

- Bullish: 43.6%, down 2.6 points
- Neutral: 29.4%, up 0.8 points
- Bearish: 27%, up 1.7 points

### **Historical averages:**

- Bullish: 38.5%
- Neutral: 31.0%
- Bearish: 30.5%

Take the [Sentiment Survey](#).

---

## Local Chapter Meetings

AII Local Chapter Meetings offer you a variety of presentations from expert speakers who will give you their view on the world of investing. A bonus of attending a Chapter Meeting near you is the opportunity to meet other AII members who share your interest and enthusiasm for investing. You can even share the Chapter experience with your family and friends by inviting them to attend Chapter Meetings with you! **Upcoming Meetings »**

---

## Archives

January 5, 2017 [Is Now a Good Time to Invest in Stocks?](#)

December 29, 2016 [17 Investing Resolutions for 2017](#)

December 22, 2016 [Dow 20,000 Shows How Bad We Are at Analyzing Numbers](#)

December 15, 2016 [Those 2017 Fed Forecasts May Prove to Be Wrong](#)

---

This month, AII is publishing our popular year-end stock screen review and if you [join AII today](#), I'd be pleased to pass along a copy for your review.

The data in this special report is pulled from the popular Stock Screens area on AII.com and if you're not familiar with this free members-only service, you'd be amazed at the investment ideas it can generate.

In a nutshell, AII Stock Screens allow you to tap into the investment philosophies of promising investment professionals as well as see the resulting stock picks. With AII.com Stock Screens, you can choose one of our more than 60 screening approaches to build a list of winning stocks. The stock screens and investment ideas are virtually endless and the resulting performance is top-notch. In fact, over the last 18 years, more than 90% of our stock screens outpaced the overall market.

**Here's a quick peek at some of our more popular screens and their impressive 2016 returns:**

Est. Rev: Lowest 30 Down screen up 44.6%...

O'Shaughnessy: All Cap screen up 41.2%...

Price-to-Sales screen up 37.8%... MAGNET Simple screen up 37.7%...  
Oberweis Octagon screen up 37.1%... T. Rowe Price screen up 30.8%...  
*Return data as of 11/30/2016.*

**Join AII Now** and you'll receive our year-end overview of the AII Stock Screens, plus gain full access to the Stock Screens Area on AII.com.