A Special Report from Sabrient Systems, LLC:

Quantitative Indexing Strategies

for

Exchange Traded Funds

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Quantitative Indexing Strategies for Exchange Traded Funds
Sabrient Systems LLC

Anyone who actively invests in the U.S. stock markets is aware of the huge proliferation of new exchange traded funds (ETFs). In fact, ETFs are one of the fastest growing investment products in today's global marketplace.

While ETFs have been around since the early 1990s, their popularity has soared in recent years among institutions, financial advisors, and individual investors. This popularity boom has attracted more product offerings and press. But many investors might not understand why they should be interested in ETFs, why it's desirable to have so many choices, and what approaches are used to select the portfolios.

Many of the newest exchange traded funds (ETFs) are supercharged by rules-based, quantitative algorithms, offering the potential for market-beating returns—plus a number of other advantages over both traditional mutual funds and market cap weighted ETFs. Let's explore this more closely.

ETF primer

> *"ETFs are the perfect asset allocation tool, and asset allocation is the most important decision an investor can make."*
> – Michael Krause, President, AltaVista Independent Research

In a nutshell, an exchange traded fund is a portfolio of securities that trades like an individual stock on a major stock exchange and can be bought or sold throughout the trading day. It is constructed to: (1) track the holdings and performance of a defined index of securities, and (2) enable investors to cost-efficiently purchase such a (potentially large) basket of securities.

They offer the professional management and diversification you expect with a fund, but the shares are listed on a stock exchange so you can buy and sell them just like any other stock in a brokerage account. And they offer a wide range of investing opportunities.

An ETF's underlying index generally represents a broad market, market sector, industry, niche, geographical region, or theme-based specialty area. Some of the better known stock-focused ETFs are shown in the table below:

Description	Index	Ticker
PowerShares QQQ Trust (a.k.a. Cubes or Qubes)	NASDAQ 100	QQQQ
Dow Diamonds Trust (a.k.a. Diamonds)	DJIA 30	DIA
Standard & Poor's Depository Receipts Trust (a.k.a. SPDR or Spider)	S&P 500	SPY
iShares Russell 3000 Index	Russell 3000	IWV
iShares MSCI Japan Index Fund	MSCI Japan	EWJ
Energy Select Sector SPDR Trust	Energy Stocks in S&P 500	XLE

IWV is an ETF that tracks the Russell 3000 Index, with each constituent stock weighted by market cap. It accounts for roughly 98% of the total value of all equity traded on U.S. stock exchanges. It would be quite a task for an investor to buy such a large basket of securities to track this index on his own—but the ETF makes it easy.

Examples of theme-based specialty areas are listed below:

Description	Index	Ticker
PowerShares Water Resources Portfolio	Palisades Water Index	PHO
Claymore/Clear Spin-Off ETF	Clear Spin-off Index	CSD
Claymore/Sabrient Stealth ETF	Sabrient Stealth Index	STH
PowerShares Cleantech Portfolio	Cleantech Index	PZD

PHO tracks companies that focus on the provision of potable water, the treatment of water, and the technology and services that are directly related to water consumption. CSD tracks companies that have recently been spun-off from larger corporations and have the opportunity to better focus on their core market segment. STH tracks lesser-known companies that are "flying under the radar" of Wall Street analysts, but which have displayed robust growth characteristics. PZD tracks companies that are part of the "cleantech" industry, i.e., they produce any knowledge-based product or service that improves operation, performance, productivity or efficiency, while reducing costs, inputs, energy consumption, waste or pollution.

There are ETFs that track things like private equity, spin-offs, intellectual property, and nanotechnology. Some are designed for hedging or betting against major market indexes. One example is the ProShares UltraShort QQQ (ticker QID), which is a "double inverse" play on the NASDAQ 100. For instance, it gains around 2% if the index falls 1%—and vice versa.

Many investors might not realize that an ETF doesn't have to track stocks. It can track virtually any kind of investment, including bonds, bulk commodities, or futures contracts. Here are some examples:

Description	Index	Ticker
iShares Lehman 20+ Year Treasury Bond Fund	Lehman Bros 20+ Year U.S. Treasury Index	TLT
streetTRACKS Gold Shares Trust	Gold bullion price	GLD
United States Oil Fund, L.P.	WTI crude oil price	USO

TLT is one of several iShares and Vanguard ETFs that hold various types of bonds. GLD and USO track the price of gold and oil, respectively—GLD actually holds gold bullion, and USO trades oil futures contracts. In fact, pick an asset class that is publicly available and there is a good bet that it is represented by an ETF … or will be soon.

Advantages of ETFs

"…a better product with more features for less money."
– Lee Kranefuss, CEO, Barclays Global Investors Intermediary Business

An ETF is like a traditional open end mutual fund in that it represents a basket of securities and its total assets can grow or shrink through new purchases and redemptions. But unlike a mutual fund it is priced and traded on the secondary market throughout the trading day rather than after market close.

Traditional Mutual Fund	Exchange Traded Fund
Basket of securities	Basket of securities
Tracks an index, or is actively managed	Tracks an index or benchmark
End of day pricing	Continuous intra-day pricing
End of day purchase or redemption	Market, limit & stop orders
Limited liquidity – only after market close	Highly liquid – throughout trading day
Low transparency, except on scheduled reports	Highly transparent
Numerous taxable events	Tax efficient
Cannot be sold short	Can be sold short
Cannot trade options on a fund	Many funds offer options trading

As the name suggests, exchange traded funds are priced and traded on an exchange (e.g, AMEX, NYSE, or NASDAQ) throughout the day just like stocks. In contrast, traditional mutual funds' prices are set once a day (usually 4 p.m. Eastern) and investors must place their orders before that time in order to get that day's price.

Also unlike traditional mutual funds, you can do just about anything with ETF shares that you can with a stock, including setting market and limit orders, shorting, and buying on margin. And they are usually optionable, allowing for various defensive (or speculative) investing strategies.

Although many traditional mutual funds are actively managed by portfolio managers who seek to beat certain benchmarks, no current ETFs are actively managed. Instead, the ETF manager passively tracks the performance of an underlying index, which is published for outsiders to monitor, generally on a monthly, quarterly, or annual rebalance basis. (Note, however, that PowerShares recently received approval from the SEC to issue the first actively managed ETFs, but they still will have trading limitations—relative to mutual funds or closed end funds—to ensure transparency.)

The value of an ETF is based upon the underlying assets, which are completely transparent, and rarely trades at much of a discount or premium. ETFs also have lower annual expenses and are more tax efficient—primarily because by trading on the secondary market, the redemptions of other investors have no impact on you.

ETFs, though not immune from taxes, are structured to shield investors from capital gains better than traditional mutual funds. Currently, all ETFs are index funds, so they typically trade their portfolios less than most actively managed funds and should generate fewer taxable capital gains.

Also, because most investors buy and sell ETF shares with other investors on an exchange, the ETF manager doesn't have to worry about selling holdings—thereby triggering capital gains—to meet investor redemptions. Moreover, because the big institutions can make share redemptions "in kind" (i.e., with a basket of stocks), ETFs can unload their lowest-cost-basis stocks in the portfolio, thereby reducing the institution's capital gains exposure. That said, given that an ETF portfolio mirrors its index, a change in the index's profile means a fund could incur capital gains as it re-configures its portfolio.

ETFs are economical to buy and especially to maintain over the long run, making them especially attractive for the typical buy-and-hold investor. Annual fees are as low as 0.2% of assets, which is quite low compared to the average mutual fund fees of 1.4% (although investors must pay a brokerage transaction fee to purchase ETF shares). Also, ETFs publish their holdings daily, enabling investors to know what they own and to make informed investment decisions. Although some open end mutual funds also publish their holdings on a daily basis, most do not.

In summary, ETFs offer the following desirable characteristics:

- Basket of securities to contain volatility & risk
- High liquidity – intraday trading with market, limit, or stop orders
- High transparency
- Cost efficiency
- Tax efficiency
- Shortable
- Many are optionable

ETFs vs. CEFs

Contrast this with a closed end fund (CEF). A CEF is similar to an ETF in that it holds a basket of securities and trades like a stock on an exchange throughout the market trading day. The difference is that a CEF is actively managed rather than tied to an index. Also, "closed end" means that it has a fixed number of shares outstanding (unlike an ETF or a mutual fund, which are open ended, i.e., allowing new shares to be purchased, increasing the total number of shares and total assets under management).

So, you might think of a CEF as a company, but instead of selling products it buys stocks of other companies. Like a typical company, it has its own stock that started as an IPO and trades on an exchange, with the price determined by market demand. Thus, a CEF typically trades in relation to, but independent of, its underlying net asset value (NAV), which means that it can trade at a significant premium or discount to its NAV. Contrast this with an ETF or mutual fund, which closely tracks its NAV due to the ability to create or close units "on the fly."

Creation of an ETF

Let's explore the process of ETF creation a bit further. Rather than the ETF manager dealing directly with individual shareholders, institutional investors who have entered into a contract with the Fund—called an Authorized Participants (APs)—will create a basket of shares replicating or approximating the index, and deliver them to the Fund in exchange for ETF shares.

A basket, or *creation unit*, consists of anywhere from 10,000 to 600,000 ETF shares. Thus, the buyer of an ETF doesn't actually own the underlying assets (e.g., individual stocks) directly. Instead, an entity is established to own the assets and establish shares of those units to sell on the secondary market. So, when you buy an ETF you are actually becoming a shareholder of the creation unit rather than a shareholder in each of the underlying securities.

Admittedly, it seems a bit confusing. But the end result is that the ETF shares are bought and sold freely among investors on the open market—most frequently on the American Stock Exchange.

If a large investor accumulates a sufficient number of ETF shares, he is able to exchange one full creation unit of ETF shares for a basket of the underlying shares of stock. The ETF creation unit is then redeemed and the underlying stocks are delivered out of the Fund. This process represents an exchange of stocks, rather than an exchange of stocks for cash, and is not generally a taxable event for the ETF and its ongoing shareholders.

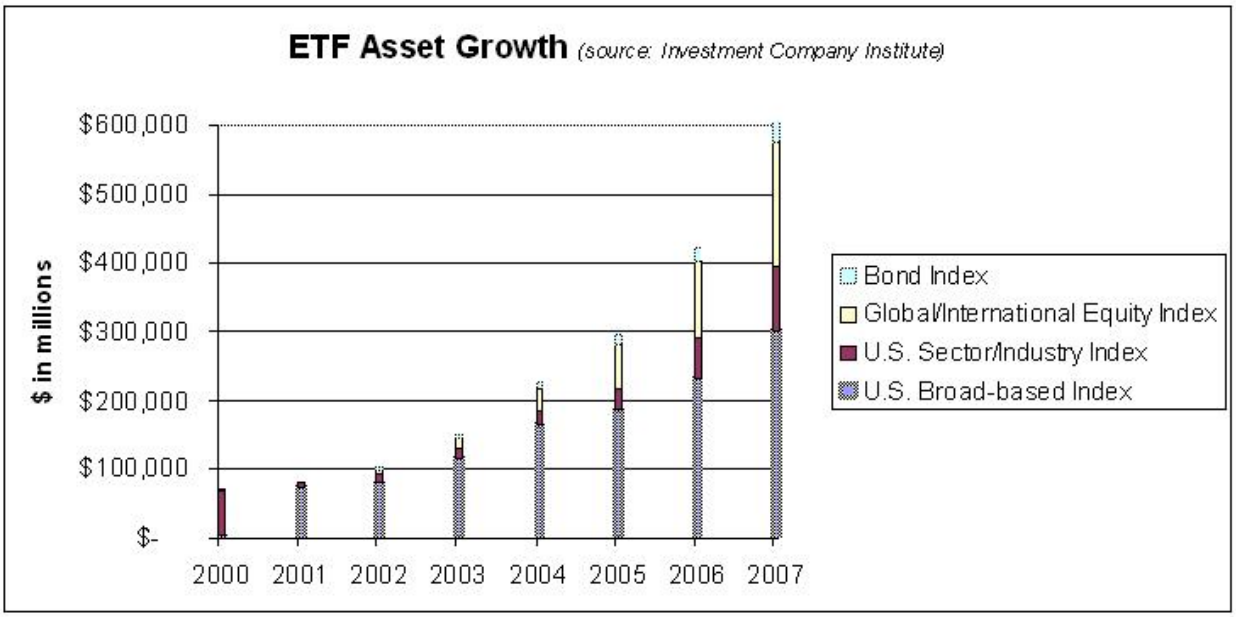
Exchange traded funds offer investors a way to invest in a corner of the market without having to bet on just one or two individual stocks. ETFs also enable people living outside the United States to participate in U.S.-based funds. Traditional U.S. open end mutual funds are available only to U.S. residents, whereas anyone in the world can purchase shares in an ETF that trades on the open market.

ETF popularity skyrockets

> *"It's very easy to get a nicely diversified portfolio using only ETFs."*
> – Carl Delfeld, President, Chartwell Partners

ETFs are rapidly becoming a popular alternative to traditional broad market index mutual funds. You can implement a given market insight in a diversified way with a single security, with the added protection of being able to enter or exit at any time during the trading day.

According to the Investment Company Institute (ICI), the combined assets of U.S. exchange traded funds ETFs) at the end of 2007 exceeded $600 billion, reflecting a 40% year over year increase. Paul Mizzilli of Morgan Stanley says, "A lot of the (new capital inflows) are coming from long-term investors and their financial advisers, who are using ETFs in asset allocation models and core satellite strategies."



ETF sponsors are hoping to make them available in 401(k)s, which would open up a much broader audience. And with over 600 ETFs trading in the U.S., choices are aplenty. In fact, it might be bordering on frenzy as the various issuers seek to gain a greater foothold in niche areas while it's still early in the game.

Although some critics are suggesting that investors are getting overloaded with too many (and often questionable) choices, it should be noted that the same was said about traditional mutual funds in their early stages. In fact, many believe that ETFs are ripe to steal market share from the huge mutual fund industry.

To be sure, there is still a vast discrepancy in total assets. With open end mutual funds totaling around $10 trillion versus ETFs at slightly over $600 billion (6% of mutual fund assets), ETFs appear to have a lot of room to grow—both by attracting assets that were formerly in mutual funds or individual stocks, and by attracting new cash from the sidelines from investors who are intrigued by the innovative product offerings. Deborah Fuhr of Morgan Stanley predicts that ETFs will have $2 trillion in market cap by 2011.

Enhanced indexing promises out-performance

> *"Investing without research is like playing stud poker and never looking at the cards."*
>
> – Peter Lynch, esteemed former Portfolio Manager of Fidelity Magellan Fund. From 1977 to 1990, the Magellan fund rose more than 2,700%.

Traditionally, indexes were designed to simply track the average performance of a group of stocks that represented either a broad market or a specific segment of the market. Indexes were also developed to serve as benchmarks for assessing the performance of an active portfolio manager. Such traditional indexes typically weight the component stocks based solely upon their market capitalization.

However, a problem can arise with a market cap weighting approach. During the Internet and technology driven bull market of the late 1990s, rampant market speculation and "irrational exuberance" exposed an undesirable aspect inherent in market cap weighted indexes. That is, as markets rise, these indexes continually overweight larger, potentially overvalued (growth) stocks and underweight smaller, potentially undervalued (value) stocks, which skews the indexes toward a more speculative growth (or even *bubble*) orientation.

Thus, *enhanced* (a.k.a., *dynamic* or *active*) indexing has gained favor. The goal is to identify a subset of stocks from within a traditional broad-based index that exhibit certain key quantifiable characteristics, providing the greatest potential for capital appreciation. Such an approach provides the potential to generate higher long-term returns, and perhaps even reduce volatility, compared with market cap weighted indexes.

Usually, enhanced or active indexing seeks to generate positive alpha relative to the broad-based index from which it selects its stocks. However, sometimes rather than seeking alpha, the goal instead might be efficient asset allocation or risk containment (such as country or sector risk).

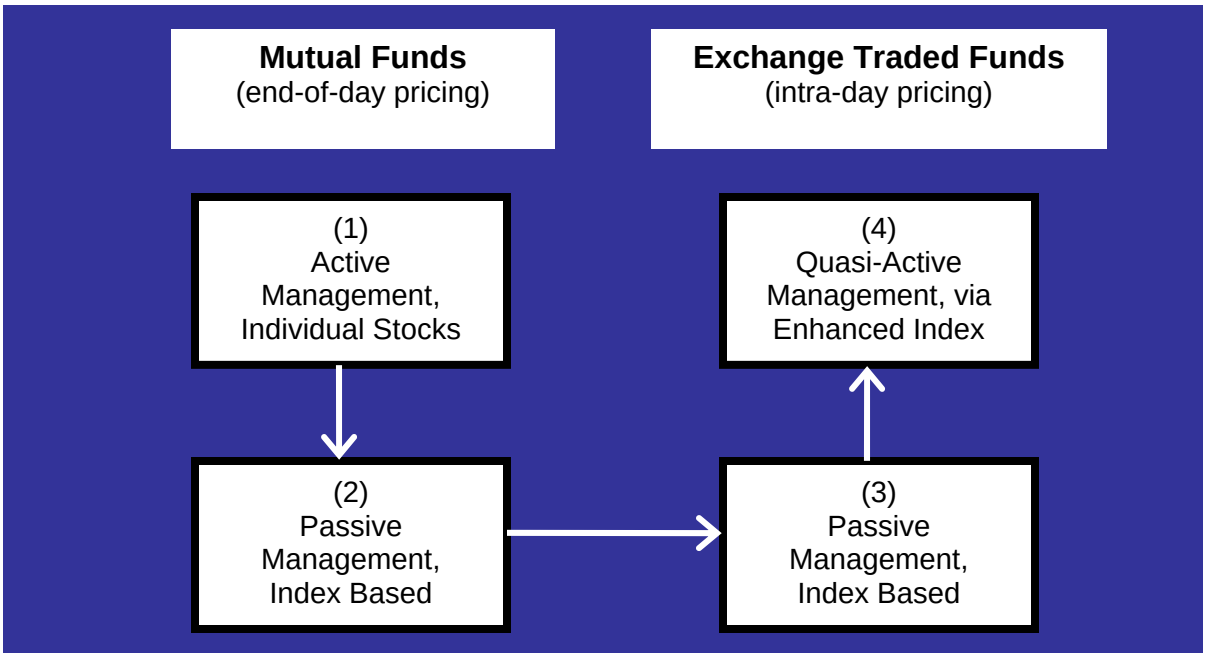
Furthermore, in an actively managed mutual fund, the portfolio manager might be buying or selling individual stocks at any time during the day. Because of this, and because of structural issues with the funds, intra-day pricing isn't possible. Hence, these funds are priced only once a day, at the close of U.S. markets.

The advent of passively managed index mutual funds meant that intra-day trading by the portfolio manager was no longer an issue, but fund structure still limited pricing to once per day.

The first ETFs (circa 1993) mirrored the passively managed index mutual funds, beginning with the Spiders, created by State Street Global Advisors to track the S&P 500. But their structure allowed fund prices to be updated every 15 seconds throughout the day, along with all the other benefits outlined above.

Recently, the industry recognized that, so long as an index doesn't change too often, there is no requirement that it be purely "passive" to retain the benefits of intra-day pricing. Thus, a number of index providers publish "quasi-active" or enhanced indexes that embody their best ideas in selected market areas.

The following diagram illustrates the evolutionary flow from the original actively managed mutual funds to today's emerging enhanced index ETFs:



The first level of enhanced indexing is to employ standard fundamental factors used by research analysts for evaluating a company—such as book value, cash flow, earnings, and dividends—to determine how much weight the stock should represent within an index. For the most part, this approach seeks out-performance by increasing the beta of the portfolio, primarily by increasing exposure to smaller caps and value. Often, the enhanced index owns all of the same stocks as the traditional index, but the relative weights are different.

One example is the PowerShares FTSE RAFI U.S. 1000 Index Portfolio (NYSE: PRF), which applies a fundamental weighting approach to the 1,000 largest U.S. equities. The index provider, Research Affiliates LLC of Pasadena, CA, has become widely known for its fundamental indexing. Chairman Robert Arnott has observed that equally weighting a given index of stocks historically adds about 180 bps/yr of return versus market cap weighting, and fundamental weighting tacks on an additional 80 bps/yr above equal weighting.

Quantitative indexing ups the ante

> *"Quant funds are a well-established strategy for institutional investors. They are becoming a story for individual investors, and for most people they probably make good sense."*
>
> – Harold Evensky, Financial Planner, Coral Gables, FL
> as quoted in *Money Magazine*, April 2006

The second level of enhanced indexing is to employ a wider variety of factors, including fundamental, technical, and sentiment-oriented (e.g., insider buying, put/call options activity, etc.), to select a subset of "top-ranked stocks" from the given universe. According to David Brown, Chief Market Strategist for Sabrient Systems LLC of Santa Barbara, CA, this can be accomplished with a multi-factor, quantitative indexing

approach that is transparent, back-testable, and repeatable. The index follows a rules-based quantitative algorithm, which identifies securities that best match a given set of desirable criteria. Although still not technically considered to be actively managed, such strategies are dynamic rather than simple static indexing strategies, like a market cap weighted index.

Today, several quantitative firms provide such rules-based enhanced indexes (a.k.a., "active quant"). They typically focus on a smaller number of stocks (e.g., 50-100), rebalance quarterly, and often have relatively high turnover (which admittedly reduces the tax advantages of the ETF). Such an approach seeks *alpha* rather than simply gaming beta exposure.

The following table provides a few examples of quant-based ETFs and their performance versus the S&P 500.

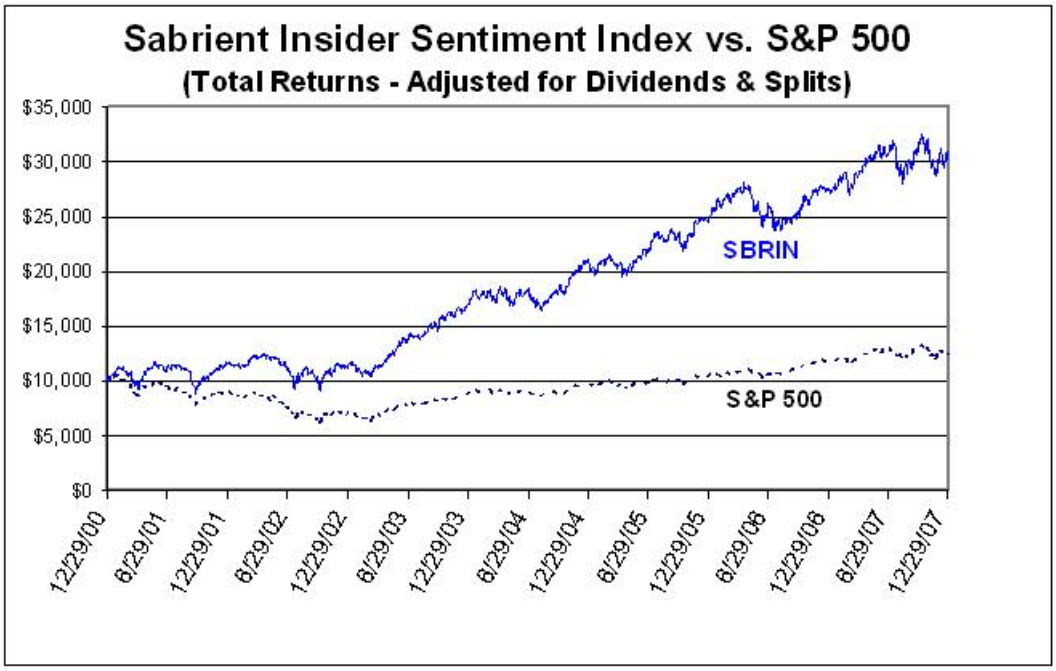
Examples of ETFs that Track Quantitative Indexes
(Total Returns thru 12/31/07 - Adjusted for Dividends & Splits)

ETF	Ticker	Inception Date	Total Return Since Inception Thru 12/31/07	Total Return S&P 500 Thru 12/31/07
PowerShares Dynamic Large Cap Value Portfolio	AMEX: PWV	3/3/05	41.5%	21.3%
PowerShares Dynamic Industrials Sector Portfolio	AMEX: PRN	10/12/06	20.6%	7.7%
Claymore/Zacks Sector Rotation Portfolio	AMEX: XRO	9/21/06	30.9%	12.9%
Claymore/Sabrient Insider Portfolio	AMEX: NFO	9/21/06	18.8%	12.9%

An interesting comparison for the PowerShares Dynamic Industrials Sector Portfolio (AMEX: PRN), which employs a multi-factor quant "Intellidex" approach to select its portfolio, is the Select Sector SPDR-Industrials ETF (AMEX: XLI), which tracks the group of stocks in the S&P 500 that are designated to be in the Industrials sector and is market cap weighted. As of 12/31/2007, PRN was up 20.6% since its inception on 10/12/2006 with a correlation to the S&P Industrials sector of 0.79, while the fully-correlated XLI was up 14.7% over the same period.

Now let's look more closely at the underlying index for the Claymore/Sabrient Insider ETF (AMEX: NFO). The Sabrient Insider Sentiment Index (AMEX: SBRIN) applies a quantitative algorithm to select 100 stocks from among a broad universe of U.S. equities, and weights each of them equally. The index selects stocks exhibiting notably positive sentiment among corporate insiders and Wall Street analysts who follow the company. SEC Form 4 filings indicate the number of key insiders purchasing their company's stock on the open market and the magnitude of those purchases. Thomson's IBES analyst database provides the number of analysts making positive revisions to their earnings estimates and the magnitude of those revisions.

Performance for SBRIN is shown in the chart below versus the S&P 500 total return index over a 7-year period. (Note that 12/29/2000-9/12/2006 is back-tested data, and 9/13/06-12/31/07 is actual published data.) Over the given 7-year period shown, total return for the S&P 500 was a modest 24% while the quant-enhanced SBRIN returned a robust 200%.



At its core, quantitative analysis is an unbiased, cost-effective way to make sense of reams of fundamental and technical data. Importantly, it avoids the biases introduced by individual fundamental analysts while still accounting for consensus estimates across a group of Wall Street analysts.

With the computing power available and the vast databases of information, computer-based quant algorithms can systematically analyze many stocks and identify trends, market preferences, anomalies, and hidden insights. The resulting algorithm can be back-tested for robustness through multiple historical timeframes, market conditions, and sub-universes of stocks.

Quant is also highly versatile. For example, it can be used as:

1) pre-screen of a large universe to identify stocks for further qualitative analysis
2) overlay to a given portfolio of stocks, such as for determining position weightings
3) stand-alone mechanical portfolio strategy employing a basket of stocks, such as long, long/short, market neutral—or an enhanced or specialty index

Summary

The number and diversity of exchange traded funds have soared in recent years, offering several advantages over traditional open end mutual funds. In contrast to both open end mutual funds and closed end funds, ETFs are considered passively managed in that they track a published index.

A traditional index seeks to represent an entire market or sector (i.e., beta = 1) by owning all or most of the stocks in that market or sector and weighting them by market cap. Because this type of static indexing has historically implied broad market-matching

returns through passive investing, investors have commonly turned to actively managed mutual funds when seeking market out-performance.

However, an enhanced index seeks to outperform a given market or sector, either by:

1) employing fundamental weights to the component stocks (rather than market cap weights), or
2) owning a select group of stocks from that market or sector, usually based on a "quasi-active" quantitative model, and applying either equal, fundamental, or dynamic weights, generally rebalanced quarterly.

Thus, while static indexing provides a way to create ETFs for general exposure to broad markets or sectors, enhanced indexes based on quantitative algorithms have greatly expanded the range of choices and offer real potential for market beating returns and alpha generation. ETFs that track these quantitative indexes provide dynamic and exciting alternatives to the traditional actively managed open end mutual funds as well as market cap weighted ETFs.

Sabrient Systems currently offers five such quant-based indexes, with more in the planning stages.

APPENDIX: Sabrient's Quantitative Indexes

"The only way to do better than the market is to have a way of interpreting the data that is different from other people's."
– Bill Miller, Morningstar's Portfolio Manager of the Decade (1990's)

Unique quantitative approaches, like the ones used by Sabrient and others for many of the new indexes (and ETFs) on the market, have the potential to interpret the data differently.

Sabrient Systems LLC is an independent equity research firm based in lovely Santa Barbara, CA. We provide unbiased, fundamentals-based quantitative research on nearly 6,000 U.S.-traded stocks and ADRs. The Sabrient research team has created a library of over 50 robust multi-factor filters, each targeting either value, growth, or momentum investing styles, to identify which stocks are poised to outperform or under-perform the market over a given timeframe.

Sabrient's quant rankings can be used as either: 1) pre-screen of a large universe to identify stocks for further qualitative analysis, 2) overlay to an existing "investable universe" such as for over- or under-weighting, or 3) as a stand-alone portfolio strategy, such as for a hedge fund or a specialty index. Sabrient has been a player in this recent surge in quant-based index strategies for ETFs.

Sabrient currently maintains five specialty indexes representing various themes. These include the Sabrient Stealth Index (AMEX: SBRST), Sabrient Insider Sentiment Index (AMEX: SBRIN), and Sabrient Defensive Equity Index (AMEX: SBRDE). (They are tracked by the following ETFs: STH, NFO, and DEF, respectively.) Furthermore, we recently launched indexes of ETFs for the Canadian marketplace. These include the Sabrient Global Balanced Growth (AMEX: SBRGBG) and Sabrient Global Balanced Income (AMEX: SBRGBI). (They are tracked by CBN.TO and CBD.TO on the Toronto Exchange.)

Sabrient Defensive Equity Index™ - *"downside protection and upside capture"*

This is not your father's defensive portfolio. The Sabrient Defensive Equity Portfolio is not the traditionally defensive basket of non-cyclical consumer staples stocks. Instead, using a 100% rules-based quantitative approach, Sabrient's computers employ a proprietary technical screen ("Bear" score) to scan the largest 1,000 stocks by market cap to identify those that have served as a sort of safe haven during key periods of general market weakness. Also, those that appear to be overly aggressive in their accounting practices, based upon a third-party forensic accounting metric, are filtered out.

The stocks that make the grade are ranked on qualities such as a free cash flow and dividend yield to arrive at the top 100 stocks. Limits are applied on sector and industry group concentrations as well as turnover during quarterly index rebalancing.

The aim is for both *"downside protection and upside capture."* Sabrient believes this creates a more interesting version of a defensive portfolio, with the potential to outperform on a risk-adjusted basis the S&P 500 Index and other broad market benchmarks under most market conditions. For example, the current portfolio includes traditionally defensive names like MO, CPB, and ALL, but also includes stocks you might not expect to see, like HET, PGH, and RCL.

This index is tracked by the Claymore/Sabrient Defender ETF (AMEX: DEF).

Sabrient Insider Sentiment Index™ - *"follow the insiders"*

Sabrient Insider Sentiment Portfolio identifies stocks that reflect positive sentiment among those closest to a company's financials and business prospects, in particular top management, directors, large institutional holders, and the Wall Street research analysts who follow the company. This *"follow the insiders"* approach seeks to ride the coattails of those who should best know the company and its future prospects in a competitive marketplace.

Using a 100% rules-based quantitative approach, Sabrient's computers employ a set of quantitative factors to identify stocks exhibiting notably positive sentiment among corporate insiders and Wall Street analysts. SEC Form 4 filings provide the number of key insiders purchasing their company's stock on the open market and the magnitude of those purchases. Thomson' IBES analyst database provides the number of analysts making positive revisions to their earnings estimates and the magnitude of those revisions. The 100 top-ranked stocks from a broad and diverse universe are selected for the portfolio. Limits are applied on sector and industry group concentrations as well as turnover during quarterly index rebalancing.

This index has been a top-performer since inception. It is tracked by the Claymore/Sabrient Insider ETF (AMEX: NFO).

Sabrient Stealth Index™ - *"flying under the radar screen"*

Given Sabrient's historically strong performance in the small and micro-cap sectors, it seemed obvious that we should provide a unique index that focuses in this space.

Enter the Sabrient Stealth Index, which seeks stocks that appear well positioned to benefit from the academically observed "neglected stock effect," whereby firms *"flying under the radar screen"* of Wall Street tend to trade at depressed prices and ultimately produce superior returns relative to better known securities. Numerous academic studies and empirical tests have demonstrated the potential of this approach.

Using a 100% rules-based approach, Sabrient's computers first identify stocks that are considered lightly covered, i.e., those followed by no more than two Wall Street sell-side analysts. Although there are no market cap restrictions, most of the stocks end up coming from the lower end of the market cap scale, where most of the neglected stocks reside.

To arrive at the final 150 stocks in the index, eligible stocks are ranked using a set of key growth and value-oriented factors such as free cash flow, return ratios, earnings changes, and relative valuation. Because by definition little or no analyst consensus data is available, all metrics are historical (backward looking) only. Limits are applied on sector and industry group concentrations as well as turnover during quarterly index rebalancing.

This index is tracked by the Claymore/Sabrient Stealth ETF (AMEX: STH).

Sabrient Global Balanced Indices – *"balanced asset allocation in a single index"*

With the proliferation of new ETFs, a logical extension is to combine a diverse group that together provide a balanced allocation to equities and fixed income within defined ranges, in accordance with either a growth or income-focused strategy. Sabrient's newest indices seek to do just that for the Canadian marketplace, providing *"balanced asset allocation in a single index".*

The Sabrient Global Balanced Indices comprise a mixture of approximately ten to twenty ETFs trading on the Toronto Stock Exchange. They were selected from a defined set of funds sponsored by Claymore Advisors, plus a handful of iShares in asset classes where no Claymore-sponsored funds are available. Right now, there are roughly 18 ETFs in the eligible pool.

The objective of the indices is to provide an appropriate mix of equity and fixed income exposure for seeking both capital appreciation and income generation. Eligible ETFs are categorized within one of the following eight asset classes: Dividend Equity, Large-Cap Canadian Equity, U.S. Equity, International Equity, REITs, Canadian Preferred Shares, Short-Term Fixed Income, and Intermediate-Term Fixed Income.

To determine how to weight the various asset classes and the securities within each class, Sabrient's computers employ a proprietary technical screen ("Defender Rank") to identify what has been serving as something of a safe haven during key periods of general market weakness. This score along with a fee-adjusted dividend yield are the key parameters in selecting and weighting individual ETFs for each index upon each quarterly rebalance.

- **Sabrient Global Balanced Income Index™:** The objective is to generate a high level of current income with long term capital appreciation potential. The index is tracked by the Claymore Global Balanced Income ETF (Toronto: CBD).

- **Sabrient Global Balanced Growth Index™:** The objective is to balance strong long-term capital appreciation potential and current income, with a bias towards capital appreciation. The index is tracked by the Claymore Global Balance Growth ETF (Toronto: CBN).