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# Fiscal Cliff Or Not, 9 ETF Picks

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Of the wide variety of tools available to analysts for picking investments, Sam Subramanian focuses on momentum, valuation and news quality.

These days his gauges are pointing to ETFs that focus on aerospace, biotech, agriculture and several other areas.

Subramanian parlayed an MBA from the University of Michigan and a Ph.D in chemical engineering from Syracuse University into an investment research firm and newsletter service that use a trademarked system called the "ValuM Investment Process."

"Specifically, we seek sectors demonstrating high relative strength while possessing attractive valuation," Subramanian's website says. "We also look for sectors with catalysts or favorable fundamentals."

Before starting AlphaProfit Investments in Sugarland, Texas, in 2003, he worked for McKinsey & Co., Exxon, Unocal and **Ford** (F), where he patented 16 products.

Here's an overview of Subramanian's current top ETF picks and his explanations of why ETF investors should buy them.

1. **iShares Dow Jones U.S. Aerospace & Defense** (ITA).

Defense firms are seeking to increase sales to emerging markets, pursue consolidation opportunities, and cut costs to offset the impact of falling defense spending in the U.S. Commercial aircraft manufacturers and parts suppliers are benefiting from rising fleet growth in developing markets and the need to replace less-fuel-efficient aircraft in developed markets.

2. **SPDR S&P Biotech** (XBI).

Sales of newly launched biotech drugs are ramping up rapidly. Biotech stocks are benefiting from strong earnings reports and favorable drug development news. Takeover activity in the biotech group remains strong, providing value-creating opportunities for investors. Further, biotech stocks have low correlation to the broad market, a virtue in this economic environment.

3. **PowerShares Global Agriculture** (PAGG).

Rising global population and the need to raise food production increases demand for fertilizers and agricultural products. In the near term, tight grain inventory caused by the U. S. drought is likely to spur outsized fertilizer demand in 2013.

4. **Consumer Staples Select Sector SPDR** (XLP).

In this milieu of global economic uncertainty, stable demand for food, beverages, and household products makes dividend-yielding consumer staples investments appealing. Consumer staples companies are driving up sales through product innovations, while lowering costs through global supply chain improvements. Emerging markets offer good growth opportunities for companies in this sector.

5. **SPDR S&P Homebuilders** (XHB).

The U.S. housing sector finally appears to be on the mend. Housing shares have fared well against the backdrop of improving industry barometers and strong earnings reports. New-home sales are now at their highest level since July 2008. Reconstruction needed in response to Hurricane Sandy is also likely to spur demand. Housing group investments are a play on the prospects for this recovery to continue.

6. **PowerShares Dynamic Leisure & Entertainment** (PEJ).

Leisure investments are a play on housing and employment markets continuing to improve, leading to increases in U.S. household net worth. Growing mass affluence in Asia is providing growth opportunities for casinos, restaurant chains and hotel operators. Rising dividends add to their appeal as well.

7. **PowerShares Dynamic Media** (PBS).

Media companies are benefiting from stronger spending on advertisements as marketers woo consumers' dollars in the face of an uneven U.S. economic recovery. Auto companies, for example, are spending on ads to push incentives and drive new-model sales. Online advertising is growing at a rapid rate.

8. **PowerShares Dynamic Pharmaceuticals** (PJP).

The resilience of pharma company earnings to the economy is positive in this economic environment. Several pharma shares have above-average dividend yields. While generic drug companies are benefiting from patent expirations of branded drugs, major pharmaceutical companies are targeting BRIC (Brazil, Russia, India and China) and other emerging nations for their growth.

9. **Utilities Select Sector SPDR** (XLU).

Shares of utility companies provide relatively high dividends and have safe-haven appeal in this economic environment. The average utility stock yields nearly 4.2%, over 2.5 times the 1.7% yield on the 10-year Treasury bond. Power generators are switching to natural gas as its price declines. Rising transportation demand for natural gas provides opportunities for pipeline operators. Merger-and-acquisition activity in the utilities sector is robust.