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3 ETF Picks In A Changing-Rate Environment: Ultra-Short, Emerging Markets And Wide Moat

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Benjamin Lau, principal and chief investment officer at Apriem Advisors, runs the investment strategy of the firm with the belief that markets are for the most part efficient. And this lets him focus on the best ETFs for investors, keeping him out of the riskier assets such as alternative or cryptocurrency investments.

But since market efficiency is not always perfect, he invests in other higher-risk assets as well if they are cheaply valued. As a result, the firm uses active and passive strategies for its equity and fixed-income investments.

Headquartered in Irvine, Calif., Apriem manages close to $1 billion in assets for 700 clients across the U.S. Lau, who has been with Apriem since 2002, oversees the day-to-day management of client portfolios.

With the 10-year U.S. Treasury note below 1.3%, Lau's first recommendation for one of the best bond ETFs is actively managed JPMorgan Ultra-Short Income (JPST). The $17.4 billion fund maintains a short duration, which makes it a flexible choice in a changing-rate environment.

Best ETFs That Are Short On Duration

"We do play with duration a little bit," he said. "We were long on duration at the beginning of the year, and now we're short on duration."

While Lau says that the fund's annual expense fee of 0.18% is on the expensive side, "you're paying for the active management." He finds JPST to be a great short-term bond alternative, with a decent yield (latest yield of 0.34%), it trades close to its NAV, is liquid and stable.

His next best ETF pick is the Schwab Emerging Markets Equity (SCHE). This $9.5 billion fund is a long-term position at Apriem, said Lau. He especially likes emerging markets for the high growth that's taking place overseas. In addition, emerging markets in general have been beaten up due to the recent strength of the dollar.

"Right now, we're not too worried about inflation or interest rates moving up too much," he said. "So, we've been buying SCHE on the premise that the dollar is going to weaken."

With an annual fund management fee of just 0.11%, Lau said it's cheaper than its largest competitor: "That's over 50 basis points in fees, which justifies holding this fund over the long term vs. its peers."

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Best Emerging Markets ETFs

Schwab Emerging Markets Equity tracks the return of the FTSE Emerging Index. It provides investors with access to large and midcap stocks across over 20 countries. China represents 42% of the fund. Top holdings include Taiwan Semiconductor Manufacturing (TSM), Tencent Holdings (TCEHY), Alibaba Group (BABA), Infosys (INFY) and NIO (NIO). The fund is up 4.69% YTD.

Another top ETF pick is VanEck Vectors Morningstar Wide Moat (MOAT). With $6.4 billion in assets, this fund is the largest ETF among the wide moat funds. Wide moat companies are those that hold large market share and present significant barriers of entry for competitors. The strategies of these companies are usually difficult to replicate due to strong brands, patents, high switching costs, extensive networks or high entry costs. Wide moat firms tend to generate huge cash flow and sustainable long-term profits.

As a result of investing in companies that tend to dominate their markets, MOAT is skewed toward giant and large-cap names. Top holdings include ServiceNow (NOW), Microsoft (MSFT), Tyler Technologies (TYL), Google parent Alphabet (GOOGL), Amazon (AMZN), Facebook (FB), Salesforce.com (CRM) and Pfizer (PFE). ServiceNow, Google and Microsoft are on IBD's Leaderboard list.

ETFs That Focus On Wide Moat Stocks

"We like the methodology in terms of how (the issuer) is ranking and trading those companies," said Lau. "We are picking up a good amount of active share vs. the index, so it's our active bet. That said, it's also not as cheap as the index, with a 0.47% expense ratio. But the returns have been phenomenal over the short and long term."

Lau said the advantages of the fund is that companies are equally distributed and not market-cap weighted. Also, with 48 holdings, the fund is well diversified. MOAT is up 20.73% YTD.

Overall, Lau is not super optimistic for the economy for the rest of the year. His caution for 2021 is based on the very low 10-year U.S. Treasury yield, which is below 1.3%, and a flattening yield curve on the long end, "like what we saw before Covid."

However, "I am optimistic on the economy for the next few years," he said. "I think the millennials are going to be a huge part of the population. They're smarter than us. Their propensity to accumulate assets is high. So, I'm really optimistic on that generation."

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