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ProShares Releases First 130/30 ETF

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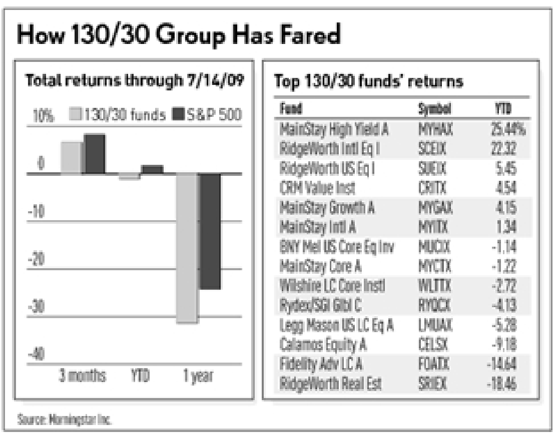

Fund	Symbol	YTD
MainStay High Yield A	MYHAX	25.44%
RidgeWorth Intl Eq I	SCEIX	22.32
RidgeWorth US Eq I	SUEIX	5.45
CRM Value Inst	CRITX	4.54
MainStay Growth A	MYGAX	4.15
MainStay Intl A	MYITX	1.34
BNY Mel US Core Eq Inv	MUCIX	-1.14
MainStay Core A	MYCTX	-1.22
Wilshire LC Core Instl	WLTTX	-2.72
Rydex/SGI Glbl C	RYQCX	-4.13
Legg Mason US LC Eq A	LMUAX	-5.28
Calamos Equity A	CELSX	-9.18
Fidelity Adv LC A	FOATX	-14.64
RidgeWorth Real Est	SRIEX	-18.46

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The big kahuna of short and leveraged ETFs, ProFunds, has launched an ETF that borrows a page from the hedge fund playbook: the 130/30 structure.

ProShares Credit Suisse 130/30 (CSM) aims to use quantitative screens to buy winners while selling short losers.

The 130/30 name comes from the structure of the fund — not the strategy. 130/30 is a type of long/short format that puts 130% of assets into long positions and 30% into short positions. The funds also come in 120/20 and 150/50 flavors. The legal limit for shorting mutual funds is 50%.

The excess money comes from the proceeds of short selling securities. Say you have a $100 portfolio, and you borrow and sell short $30 of stock. The proceeds are credited to your account. Your account balance now totals $130.

You can use the additional $30 to buy a total of $130 in stocks long. For every $100 you have to invest, you can play with up to $160.

Funds that have the flexibility to short, or make money from falling stock prices, became all the rage during the bear market. Over the past two years, mutual fund companies unleashed a slew of 130/30 funds specializing in bonds, value investing, large caps, real estate and international stocks.

Only one of 14 funds that came up on a Morningstar screen of 130/30 funds had a track record of three years or longer. That was $15 million Rydex Global 130/30 .

The amount of money invested in long/short funds has tripled to $26.5 billion since 2004, according to Morningstar.

Don't confuse 130/30s with long/short funds. 130/30s are grouped with long-only funds because of their 100% exposure to the market.

Including all share classes, the 14 funds had an average year-to-date return of -1.06% going into Wednesday vs. 1.74% for the S&P 500.

In the past year, they fell 31.35% vs. the S&P 500's 24.24% decline.

ProShares Credit Suisse 130/30 tracks a quantitative index developed by Andrew Lo and Pankaj Patel. Lo is chairman of research firm AlphaSimplex Group and a professor of finance at MIT Sloan School of Management. Patel is director of quantitative research at Credit Suisse.

The index screens the S&P 500 for five broad themes: value, growth, profitability, momentum and technicals. It crunches 50 variables, including price/earnings ratios, book value, dividend yield, cash flow and sales, earnings forecasts, value and price momentum.

The algorithm scores each stock based on these variables and gives them a single composite score. In a nutshell, the index buys stocks with the highest scores and shorts those with the lowest scores.

Stocks are then run through an optimizer to determine their weighting in the portfolio. On average the index holds 270 stocks long and 150 short with 15% turnover a month. Managers will refresh the index on the third Friday of each month.

The strategy aims to outperform large caps by 2% to 2.5% a year over the long haul, says Patel. In a white paper, Lo and Patel wrote that their 130/30 index outpaced the S&P 500 in seven of the years from 1996 to 2007. It did about the same in two years and underperformed in three.

The creators bill the 130/30 as the new long-only fund that investors can buy and hold until retirement. Some asset managers see 130/30s as just another marketing gimmick.

Frequent trading could create capital gains, making the fund less tax efficient than a long-only fund. When trading costs and the 0.95% expense ratio are factored in, the 130/30 index doesn't significantly outperform the S&P 500 on a risk-reward basis, says Marvin Appel, president of Appel Asset Management.

Alan Rosenfield, managing director of Harmony Asset Management, sees another problem. "When you take a quant strategy that's a hot strategy, it's going to stop working because everyone is doing it," he said.