

Dividend Paying ETF's Beating The Market In 2016

by Robert Hauver

Our last article, "[Market Correlations & Hedging Strategies](#)", covered some ETF's that have an inverse correlation to the market, and have been beating the S&P 500 handily over the past several months.

This article goes one step further – how'd you like to find some ETF's that are not only good market hedges, but also pay dividends? We found 3 such vehicles – they may not be [high dividend stocks](#), but 2 out of 3 pay monthly, and all 3 go ex-dividend in March:

Ticker	Company	2/24/16 Price	Dividend Yield	Most Recent Dividend	Next Ex-Dividend Date (approx.)	Next Pay Date (approx.)	Dividend Frequency
TLT	iShares 20+ Year Treasury Bond	\$132.12	2.47%	\$0.241	3/2/16	3/6/16	Monthly
XLU	Utilities Select Sector SPDR ETF	\$46.71	3.46%	\$0.445	3/21/16	3/30/16	Quarterly
BAB	PowerShares Build America Bond ETF	\$30.23	4.58%	\$0.10914	3/15/16	3/31/16	Monthly

Performance: Over the past 5 years, these ETF's have all performed well...

[YTD](#) [1 Year](#) [3 Year](#) [5 Year](#)



...but things get real interesting when you look at their YTD 2016 performance vs. the S&P 500, which was down around -5.58% as we wrote this article.



Here's a look at performance for various recent time periods, all of which outperformed the S&P 500:

Ticker	Performance (YTD)	Performance (Month)	Performance (Quarter)	Performance (Half Year)	Performance (1 Year)
TLT	9.24%	5.09%	9.48%	5.33%	5.34%
XLU	8.09%	6.80%	9.38%	5.90%	5.48%
BAB	4.75%	1.71%	5.05%	5.17%	5.51%

Options: We've tracked Covered Call trades for TLT in our Covered Calls Tables for several years. This April \$133.00 call strike pays \$2.12, with an annualized yield of 13.88%.

	2/24/16 PRICE	DIVIDEND PER SHARE \$ PAID PRIOR TO CALL EXPIRATION	ANNUAL'D DIVIDEND YIELD %	CALL OPTION EXPIRATION MONTH & STRIKE PRICE	CALL BID PREMIUM	ANNUAL'D CALL YIELD	TOTAL ANN'D STATIC YIELD	POTENTIAL ASSIGNED YIELD	ANNUAL'D TOTAL POTENTIAL YIELD
TLT	\$131.61	\$0.4820	2.57%	4/16/2016 \$133.00	\$2.12	11.31%	13.88%	7.41%	21.29%

Selling Puts: The April \$131.00 TLT put strike pays \$.2.70, and gives you a breakeven of \$128.30.

We've also added an XLU trade to our [free Covered Calls Table](#), where you can track over 30 other income-producing, call-selling trades.

2/24/16 PRICE	DIVIDEND PER SHARE \$ EX-DATES BEFORE PUT EXPIRATION	ANNUAL'D DIVIDEND YIELD %	PUT OPTION EXPIRATION MONTH & STRIKE PRICE	PUT BID PREMIUM	ANNUAL'D PUT YIELD	100% CASH RESERVE AMOUNT	BREAK-EVEN PRICE	52-WEEK LOW
\$131.61	\$0.4820	2.57%	4/16/2016 \$131.00	\$2.70	14.47%	\$270.00	\$128.30	\$114.88

In addition, our [free Cash Secured Puts Table](#) now has an XLU put trade, plus 30 other trades.

TLT: The iShares 20+ Year Treasury Bond ETF seeks to track the investment results of an index composed of U.S. Treasury bonds with remaining maturities greater than twenty years.

XLU: The Utilities Select Spider ETF seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of publicly traded equity securities of companies in the Utilities Select Sector Index. In seeking to track the performance of the index, the fund employs a replication strategy. It generally invests substantially all, but at least 95%, of its total assets in the securities comprising the index. The index includes companies from the following industries: electric utilities; multi-utilities; independent power producers & energy traders; and gas utilities.

BAB: The PowerShares Build America Bond Portfolio (Fund) is based on The BofA Merrill Lynch Build America Bond Index (Index). The Fund will normally invest at least 80% of its total assets in the securities that comprise the Index. The Index is designed to track the performance of US dollar-denominated Build America Bonds publicly issued by US states and territories, and their political subdivisions, in the US market. The Fund and the Index are rebalanced and reconstituted monthly.

Compared Funds	XLU Utilities Select Sector SPDR® Fund Prospectus	TLT iShares 20+ Year Treasury Bond ETF Prospectus	BAB PowerShares Build America Bond Portfolio Prospectus
Fund Category 1/31/16	Utilities	Long Government	Long-Term Bond
Morningstar Rating 1/31/16	★★★★★ High	★★★★★ Above Average	★★★★★ Above Average
Morningstar Risk 1/31/16	Above Average	Above Average	Below Average
Morningstar Return 1/31/16	High	Above Average	Above Average
Standard Deviation vs. selected funds	14.05 High	11.52 Above Average	6.02 Below Average
Sharpe Ratio vs. selected funds	0.84 High	0.53 Below Average	0.74 Above Average

Expenses: All 3 of these ETF's have low expense ratios. TLT is the largest, with \$9.7B in assets, dwarfing BAB, which has \$763.6M in assets.

Ticker	Expense Ratio	Net Assets
TLT	0.15%	\$9.78B
XLU	0.14%	\$6.84B
BAB	0.27%	\$738.6M

Technicals: XLU and TLT have much larger daily trading volume than BAB, which trades 159 thousand shares on average daily. All 3 have similar RSI's, and are trading near their 52-week highs.

Ticker	Average Volume (thousands)	Average True Range	50-Day Low	52-Week High	52-Week Low	Relative Strength Index (14)
TLT	9736.07	1.59	10.61%	-2.31%	16.97%	64.71
XLU	15106.17	0.77	13.72%	-0.62%	16.76%	63.93
BAB	159.69	0.19	5.94%	-1.05%	9.86%	64.75

Holdings:

XLU's top 10 holdings are some of the largest Utilities in N. America, and their average P/E of 15.82 is below the S&P's trailing P/E of 21.82.

Top 10 Holdings (60.37% of Total Assets)

Company	Symbol	% Assets
NextEra Energy, Inc. Common Sto	NEE	9.19
Duke Energy Corporation (Holdin	DUK	8.54
Southern Company (The) Common S	SO	7.94
Dominion Resources, Inc. Common	D	7.67
American Electric Power Company	AEP	5.37
Exelon Corporation Common Stock	EXC	4.86
Pacific Gas & Electric Co. Comm	PCG	4.84
PP&L Corporation Common Stock	PPL	4.22
Sempra Energy Common Stock	SRE	4.01
Public Service Enterprise Group	PEG	3.73

[Get Quotes for Top 10 Holdings](#)

Equity Holdings

Ratio	XLU
Average Price/Earnings	15.82
Average Price/Book	1.54
Average Price/Sales	1.48
Average Price/Cashflow	6.10

BAB's top 10 holdings include mostly AA-rated state bonds, many from California, with maturities from 2021 out to 2045. These coupon rates are pretty high, ranging from 4.64%, up to 7.60%.

Holding Name	Coupon Rate	Maturity	Next Call Date	S&P/Moody's Rating†	Weight
State of California	7.60%	11/01/2040	N/A	AA-/Aa3	4.07%
State of California	7.50%	04/01/2034	N/A	AA-/Aa3	3.37%
State of California	7.55%	04/01/2039	N/A	AA-/Aa3	3.18%
Metropolitan Transportation Authority	6.81%	11/15/2040	N/A	AA-/A1	2.35%
State of Illinois	5.56%	02/01/2021	N/A	A-/Baa1	2.17%
State of California	6.51%	04/01/2039	10/01/2021	AA-/Aa3	1.75%
University of California	5.95%	05/15/2045	N/A	AA-/Aa3	1.72%
Missouri Joint Municipal Electric Utility Commission	6.89%	01/01/2042	N/A	NR/A2	1.71%
State of California	7.35%	11/01/2039	N/A	AA-/Aa3	1.64%
University of Texas System/The	4.64%	08/15/2030	N/A	AAA/Aaa	1.57%

Disclosure: Author owned no shares of any ETF mentioned in this article at the time of publishing.

Disclaimer: This article was written for informational purposes only and isn't intended as investment advice. Please practice due diligence before investing in any investment vehicle mentioned in this article.

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