



STOCKTRADES ETF SUMMARY

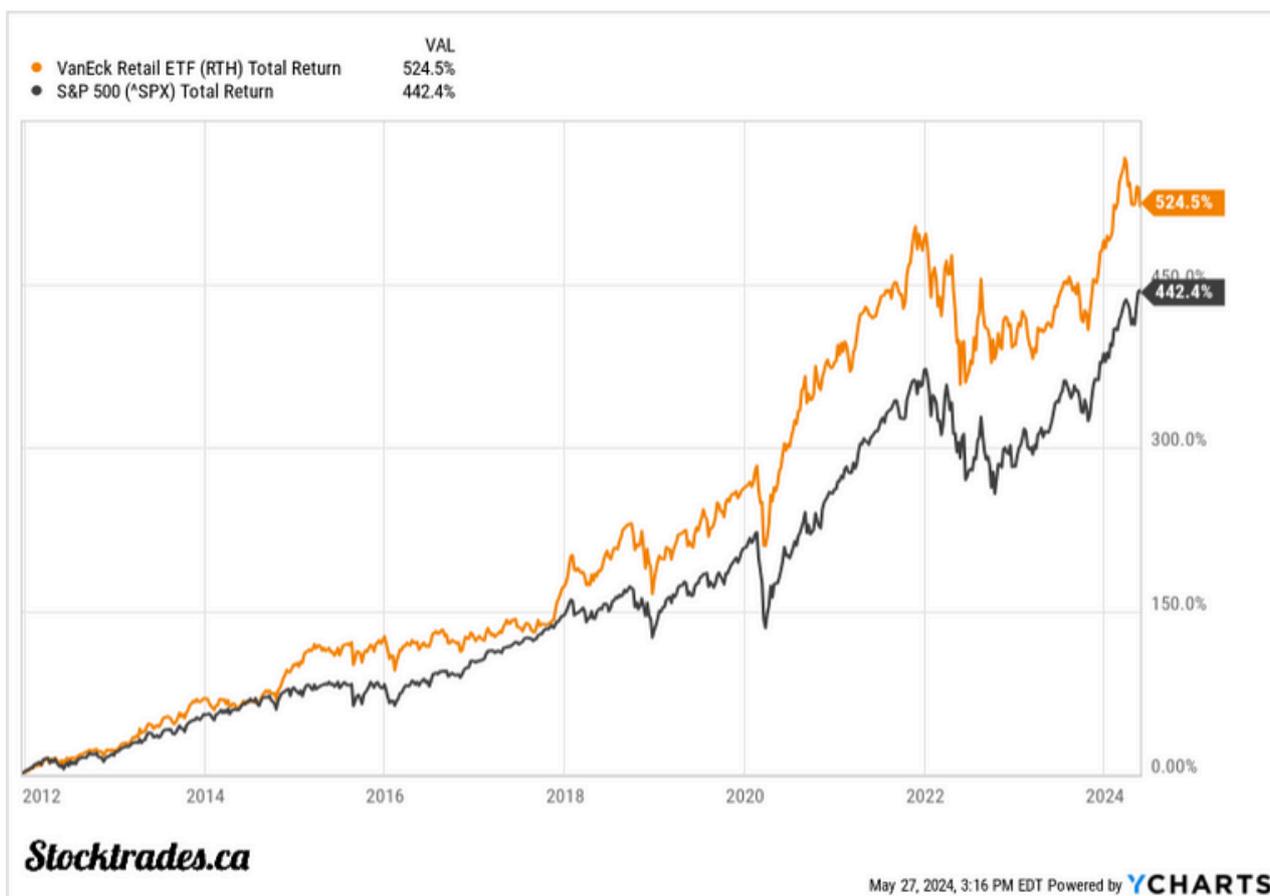
RTH

VANECK RETAIL ETF

UPDATED JUNE 9, 2024

WWW.STOCKTRADES.CA

Stocktrades ETF Insights



Performance (CAGR)	15.87%	★★★★★
Fees (MER)	0.35%	★★★
Volatility (Beta)	0.87	★★★★★
Distribution (Yield)	1.04%	★★★
Valuation (Forward P/E)	21.03	★★★
5 Year Earnings Growth	10.7%	★★★

Performance: The fund's 10-year annualized returns, or all-time annualized returns if the fund is less than 10 years old.

Fees: The fund's total fees, including the trading expense ratio. A lower star rating means higher fees. However, a high-fee fund could have a high fee rating if its performance has justified the fees.

Volatility: The historical volatility you can expect from the fund. A lower star rating means more volatile. We base this on a combination of the beta and max drawdown of the fund.

Distribution: The yield of the fund. A more tax-efficient ETF will get bonus stars.

Valuation: The overall valuation of the companies inside of the fund.

5 Year Earnings Growth: The expected earnings growth of the fund annualized over the next 5 years. A lower star rating means lower expected growth.

PROS

- U.S. retail companies have been under large pressure from rising policy rates. The industry should recover and see growing earnings in the event that policy rates come down
- The U.S. economy is full of rock-solid, blue-chip retail companies with high returns on capital
- A nice blend of consumer discretionary and staple exposure

CONS

- Although lower policy rates would be a tailwind for retailers, when rates will come down and at what magnitude are unknown. Higher for longer will put continued pressure on retailers as consumers scale back spending
- The portfolio is concentrated, with Amazon making up more than 20% of the portfolio. This allocation has driven a lot of its outperformance relative to the S&P 500

OBJECTIVE AND STRATEGY OF THIS ETF

The Van Eck Retail ETF is an index fund that aims to track the MVIS U.S. Listed Retail 25 Index.

The main goal of the index is to invest in companies with a market capitalization of at least \$150M, and they must have a daily trading volume of at least \$1M USD. If an organization meets the market capitalization and volume thresholds, they will then need 50% of their revenue coming from retail, with the definition of retail being retail distribution; wholesalers; online, direct mail and TV retailers; multi-line retailers; specialty retailers; and food and other staples retailers.

The index caps its allocation at 20%, meaning any individual stock cannot make up more than 20% of the portfolio. If a stock exceeds this due to capital appreciation, the fund will trim its position when it undergoes rebalancing.

Right now, the fund is making large-scale bets on a handful of the larger retailers in the United States, including Amazon, Costco, Walmart, and Home Depot. I'll cover this a bit more in the top holding section of the report.

Overall, the strategy of the fund is to give investors single-click exposure to some of the largest retailers in the United States.

RISKS OF THIS ETF

Owning a US-based retail ETF depends heavily on the success and continued growth of the US economy. If the economy were to enter a deep recession or lower growth, these retailers would no doubt struggle as consumer spending would likely scale back.

Although the fund does contain some consumer staple options, the majority of the fund is

cyclical, meaning the ebbs and flows of the economy will impact the earnings and the stock prices of the underlying holdings.

Another risk is the concentrated exposure to Amazon. There is a large bet inside this fund on the online giant, and it will need to continue to put up rock-solid performance

Sector Risk	HIGH
Concentration Risk	HIGH
Geographical Risk	HIGH
Liquidity Risk	LOW

to drive returns for the fund overall. With a 20% allocation to the fund, if Amazon ever has issues, it is unlikely the fund will put up the performance it has historically.

The final risk I'll mention is one of inflation. Although inflation has slowed, it remains sticky in the high 3% range. If prices continue to accelerate, retailers could face a couple of headwinds. For one, rates could remain high. Discretionary spending companies like Home Depot and Lowes could see consumers opt out of renovations and other home improvement projects to focus spending on necessities only.

In addition to the higher-for-longer situation in terms of rates, higher inflation also impacts margins for retailers, especially if they are unable to pass on those higher costs to the consumer. We are already seeing major retailers like Walmart reporting having to put attractive sale prices on more items to attract consumers. Ultimately, the lower the prices these retailers are forced to sell items for as the cost for those items continues to go up, the lower their margins and earnings.

HOLDINGS

Top Holdings	Allocation
Amazon (AMZN)	20%
Costco (COST)	9.5%
Walmart (WMT)	8.1%
Home Depot (HD)	8.1%
TJX Companies (TJX)	4.8%
McKesson (MCK)	4.8%
Lowe's (LOW)	4.7%
O'Reilly Automotive (ORLY)	3.89%
Target (TGT)	3.5%
CVS Health (CVS)	3.5%

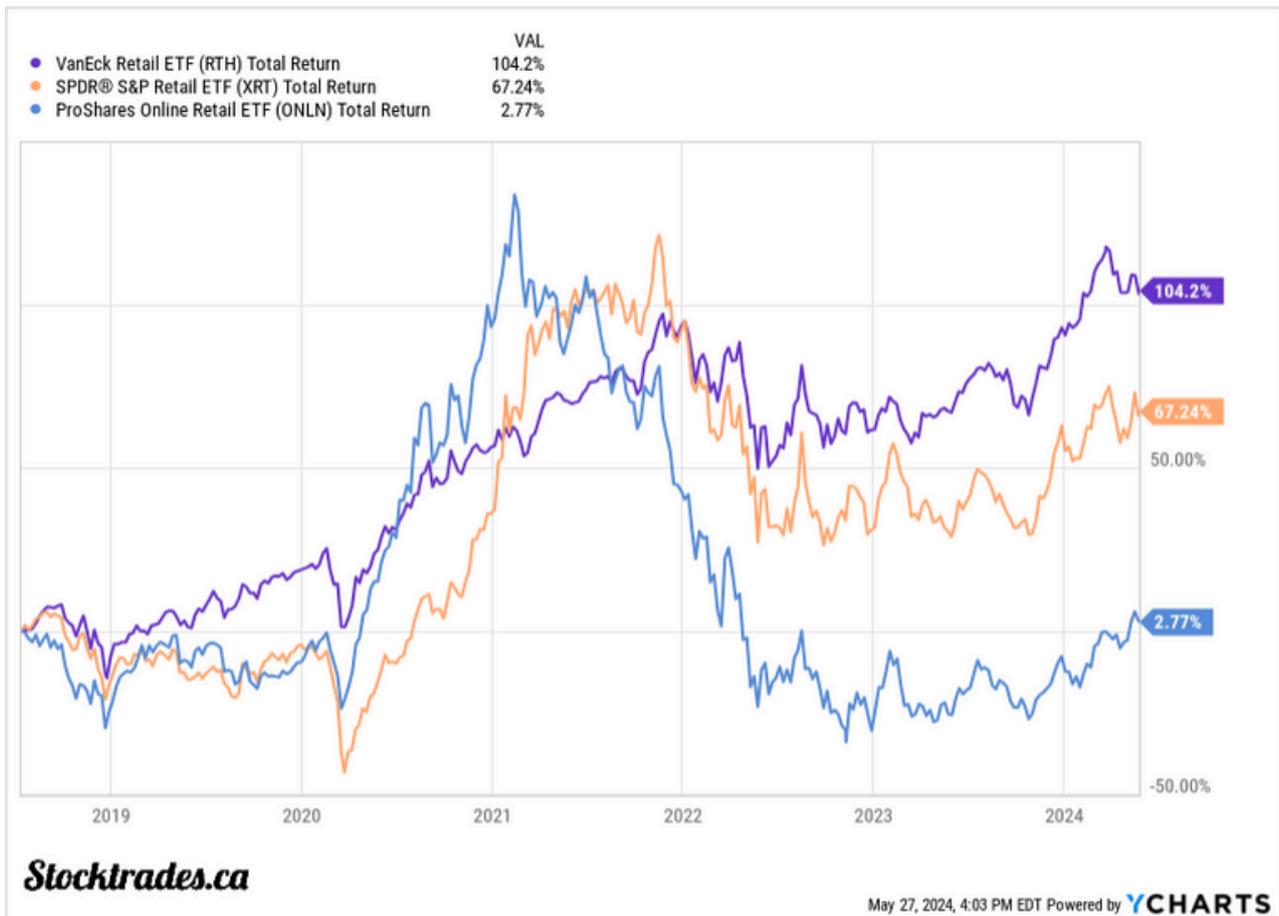
As you can see, this fund is top-heavy. Not only is 20% of the fund allocated to Amazon, but nearly half of the fund is allocated to the top 4 holdings. Depending on your overall opinion of these companies, this can be a good thing or a bad thing.

For me, I'm fairly bullish on all 4 of the top companies: Amazon, Costco, Home Depot, and Walmart. Walmart is one of the best consumer-defensive companies on the planet. At the same time, Costco has arguably the best "flywheel" business model of all time. Costco continually gets more customers into its stores, resulting in larger bulk purchases from suppliers, which means more attractive prices for consumers.

Because Amazon supplies so many staple consumer purchases these days, I'd say that Home Depot is the only cyclical company in the top four holdings. However, I'm pretty bullish on Home Depot due to the housing crisis we are witnessing here in Canada and the United States. US homeowners, due to their mortgage structures, should be heavily incentivized to renovate their homes rather than sell and lose their low pandemic mortgage rates.

In Canada, we have possibly one of the largest housing crises on the planet, with not nearly enough supply to accompany the surging population. As a result, we can expect home building to continue to accelerate. Although many people assume Home Depot is simply a company where contractors and consumers purchase goods for renovations, they also have a large revenue stream from the construction of new homes.

COMPETING FUNDS



	RTH	XRT	ONLN
Returns	✓		
Diversification		✓	
Fees	✓		
Tax Efficiency	✓		
Distribution	✓	✓	

There are few retail ETFs period, let alone US retail ETFs. The only three I could find are the SPDR Retail ETF XRT and the Proshares Online Retail ETF ONLN.

The Online Retail ETF isn't really relevant in this situation, but I added it as a third comparable nonetheless. It contains many online-based retailers (Amazon included) that have really struggled in a post-pandemic environment, like Carvana and eBay.

For SPDR XRT, this is a more broad-based fund with over 80 holdings. Its performance has lagged RTH primarily because it doesn't have the large-scale exposure to Amazon.

For someone who doesn't like the concentration risk of Amazon, the iShares fund is certainly a strong alternative. 80 holdings versus 25 of RTH, and no single retailer makes up more than 2% of the portfolio, making it much more equal weight.

The only difficulty I have with XRT is that it contains a lot of companies that I really wouldn't want to own at all such as Gamestop, Carvana, Victoria Secret, and Nordstrom.

I'm fairly bullish on Amazon, so I don't mind the large allocation in the portfolio. I can accept the risk that if the retail giant struggles, the fund will ultimately struggle. If they continue to make advancements when it comes to their cloud and advertising platforms, they should be able to continue to grow earnings and cash flows at a market-beating pace, which will result in RTH likely outperforming all retail ETFs.

DISTRIBUTION ANALYSIS

RTH doesn't really pay all that much of a distribution. If you're a stickler for income, you're likely going to pass on this fund as its distribution typically hovers around the 1% range. It is a fund that is structured to provide most of its returns to investors via capital appreciation.

As a US fund that contains US holdings, someone in Canada could place this in an RRSP to avoid the withholding tax on the distribution.

OUR OVERALL OPINION

The United States economy is one of the best in the world. Although it is not guaranteed to continue growing at the pace it has historically, it could be one of the faster-growing major economies moving forward.

For someone who doesn't want to pick individual retail stocks, this fund provides one-click exposure to 25 of the strongest retail companies in the country, with a concentrated focus on 4 of the strongest ones in Amazon, Costco, Home Depot, and Wal-Mart.

Over the short term, if interest rates start to decline, we should see a resurgence in consumer spending, and as a result, we should see most of these cyclical retailers return to growing earnings. Generally, rising costs are here to stay, so in the case of something like Costco, we should continue to see consumers seeking out cheaper alternatives, such as Costco, when it comes to basic necessities like clothing and groceries.

There are added risks to the fund with its concentration in Amazon and its dependence on the US economy. However, I think if you want exposure to the US retail space, this is one of the best funds in North America for that. It can help mitigate the risk of selecting individual retail stocks to take advantage of a recovering economy. Outside of Amazon, because of its high weighting, the struggle of any individual retailer in this ETF shouldn't be that detrimental to the fund's returns overall.



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