UNTITLED ETF REPORT #1: CYBERSECURITY ETFs

I'm not going to sugarcoat it…

Enormous threats are looming that have the potential to destroy life as we know it. And for many people, these threats have already become a reality that they need to deal with on a daily basis.

But there's an industry working around the clock to ensure that we as a society can beat it.

Your investment in this industry will help support these efforts…

Even better, it can help boost your portfolio big-time.

<u>This sector protects more that your digital life… it protects your portfolio</u>

In May of this year, Warren Buffett, the world's richest and most famous investor, called cyberattacks "the number one problem with mankind."

And he said that a week *before* the largest ransomware attack in world history. The WannaCry virus infected more than 200,000 computers in 150 countries, wreaking havoc on governments, businesses, and unsuspecting citizens all over the planet.

Of course, there are many other attacks happening every day—every second!—on a smaller scale. There were 4.2 billion cyberattacks this year and last. And every computer you own—your desktop, laptop, phone, tablet, and whatever else—is attacked by hackers nearly 1 million times a day.

One million times per day, hackers are attempting to find out and expose your darkest secrets… confiscate your money… amass obscene amounts of debt in your name… destroy your credit and your life.

This number is expected to increase *tenfold each decade*. So by 2027, every computer you own, and all the information on it, will be attacked nearly 10 million times every 24 hours.

And it's not just your computer this is happening to. Hackers are going after all the entities that store your most private personal data—computers owned by retail merchants, banks and brokerage firms, social media businesses, your employer and more.

Our government is also perpetually under attack. Hackers are working ceaselessly to breach our national security and find out as well as confidential information that could put hundreds of millions of lives at risk.

Fortunately, governments, companies, and consumers worldwide have begun to understand the severity of the problem and dedicate resources to stop these attacks. As a result, cybersecurity spending has increased quickly and mightily.

Here's how some of the *worst* performers in the industry did last year:

- Palo Alto Networks posted a respectable 49% gain in nine months.
- VASCO Data Security soared 56% in six months.
- FireEye posted an impressive 73% gain in only 26 days.
- Rapid7 leapt 103% in less than seven months.

Even with such “low” returns, these companies are still leaving the average S&P 500 stock in the dust.

Other companies did better:

- Digital Info Security recently posted a 342% gain — more than quadrupling your investment ...
- Mimecast Ltd rose 375%...
- Grey Cloak Tech jumped 378% — in less than two months ...
- Com-Guard.com soared 533% in just three months — enough to multiply your money more than six times, and ...
- Intrusion, Inc. exploded 733% higher, turning every $10,000 invested into more than $83,000 in *just 14 short days*.

As cyberattacks increase, so will the spending to stop them. It’s not just a matter of logic: the government has demonstrated that cybersecurity is a major priority.

In the White House, eight days *before* he moved into the Oval Office, President Trump created the office of Cybersecurity Advisor and named former New York City mayor Rudy Giuliani as its first appointee to the office.

Moreover, on March 26 of this year, the president announced the creation of The Office of American Innovation, charged with defeating cyber-terrorists and other digital criminals.

On the legislative side, no fewer than SEVEN major cybersecurity bills have already been passed by the U.S. House of Representatives or the Senate.

The bills have names like the “Cyber Preparedness Act of 2017,” the Strengthening State and Local Cyber Crime Fighting Act of 2017,” and the “Support for Rapid Innovation Act of 2017.”

So it’s clear there’s going to be a serious influx of money into this sector...

The globally-respected Gartner Group estimates $3 trillion dollars. That’s trillion, with a “t.”

To put this in perspective, that's the same amount the U.S. Treasury and Federal Reserve printed and spent in 2008 and 2009 in order to save the economy. The plan worked, and the average stock more than tripled, with some doing far better than that.

This time around, though, the cash infusion isn't going to be spread among multiple industries. No, the entire $3 trillion is going to be spent with only a few cybersecurity firms.

As you've seen, this business is already doing extremely well. If you want to invest, take a look at your special report "Six Cyber-Defense Windfalls for 2017-18" to see the individual stocks we recommend you buy before everyone else does.

Another great way to invest in this industry is through a cybersecurity ETF.

You may be thinking, "ETFs? But those are basically index funds. Why would I want those?" Though ETFs aren't necessarily in the ________________ Portfolio, they're still a worthwhile addition to your own.

<u>Five Reasons to Consider Cybersecurity ETFs for Your Portfolio</u>

Here's why we include ETFs among some of our own investment portfolios.

ONE — Sector Play vs. Individual Play.

It's often easier to get a sector right than it is to get an individual stock right. For instance, we know, overall and over time, the cybersecurity sector has performed well.

However, just like any other industry, companies come and go. Think about it like this …

Suppose that a while back you wanted to invest in the movie entertainment business. If you could have invested in an ETF that tracked movie studios, movie distribution, and whatever else might go along with movies, then you'd be pretty safe as that sector of the entertainment business grew.

But without such an ETF, let's say you invested in a great little stock called Blockbuster, which was the darling of Wall Street. That would've been a strong performer for a while, but you might have missed a new upstart called Netflix that was mailing DVDs to people's houses.

With an ETF, there's a good chance that Netflix would have been rolled into your ETF at some point, and Blockbuster would have been cut.

Finding a great stock isn't that hard. But for most investors, knowing when to dump that once-great stock from your portfolio can be very difficult. With an ETF, the fund manager cuts your losses for you, taking care of some of the emotional dirty work.

Plus, because you're dealing with only one to three ETFs in any given sector, they're much easier to track in your brokerage account than lots of individual stocks.

TWO — Mutual Funds vs. ETFs.

Mutual funds are based on 1970s and 1980s technology. Information moves faster today, and mutual funds, with their daily pricing (as opposed to real time) are no longer what they once were. Plus, mutual funds often carry money management fees that can eat into your profits. ETFs do not carry those fees.

ETFs allow you to use trading strategies like our ________ Strategy. Combine trading strategies with ETFs and you could see a nice boost to your portfolio.

Finally, ETFs also offer profit potential through the use of basic option trades.

THREE — Transparency.

If you're like most investors, you want to know which securities an ETF holds. While mutual funds report their holdings only on a monthly or quarterly basis, ETFs report daily on their portfolio holdings. This includes their top 10 holdings, industry sector allocations, and geographic allocations. ETFs also disclose their performance for both the market price and the NAV of their shares. All of this data is readily available on financial websites.

In other words, you don't have to wait 90 days to see what's inside an ETF like you do with a mutual fund. You can get the current make-up of an ETF daily. Plus, watching which stocks move in and out of the ETFs top 10 holdings can offer clues on the sector and which individual stocks are likely outperforming others.

FOUR — Tax Efficiency.

If you're really into tax talk, you can do a quick Google search for the "Mutual Fund vs. ETF Tax Efficiency" and read for days. However, here's a quick summary:

Because an ETF trades like a stock, your capital gains or losses are triggered when YOU sell. In a mutual fund, you pay taxes each year based on activities in the overall fund, whether or not you bought or sold that fund.

Don't get me wrong—Uncle Sam is going to get his capital gains either way. But with an ETF, you have a little more control over when and what to expect at tax time.

FIVE — Simplified Yet Creative Investing.

It used to be that the only way to get leverage on a stock or sector was to use options or to sell a stock short. But with ETFs, all that has changed.

As a sector grows, new ETFs come to market allowing for opportunities like 2x ETFs where the ETF delivers two-times or double the returns (or losses) of a sector. This allows you to leverage a sector without a margin account or having to learn options.

You'll also find index ETFs, fixed-income ETFs, actively managed equity-based ETFs, sector ETFs focusing on a particular industry or geographic region, and leveraged or inverse ETFs.

This means anyone with a standard brokerage account can take advantage of leveraged plays without a margin account. And, because ETFs trade like stocks, you can also use options on many ETFs if you do have a margin account.

Combine these five advantages with the cybersecurity industry's performance in the markets over time, and ETFs make a great addition in your investment tool kit.

Three Cybersecurity ETFs Worth Checking Out… Plus a Bonus

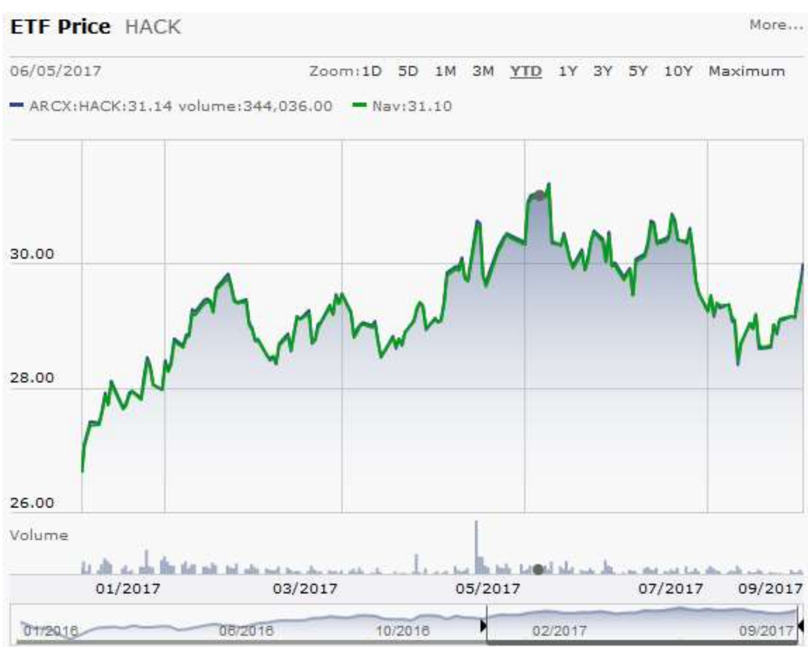
ETFMG Prime Cyber Security (HACK). ETFMG Prime Cyber Security is an exchange traded fund seeks to replicate the performance of the Prime Cyber Defense Index. The Index tracks direct service providers and key drivers of the cybersecurity industry all over the world.

The fund invests exclusively in stocks, with less than a tenth of a percent invested in cash. More than 96% of the fund's portfolio consists of technology stocks. You'll be investing in companies you know: Cisco Systems, Palo Alto Networks, and Symantec Corp. are their top holdings. The emphasis is primarily on growth stock, though some of the stocks are blended (value/growth).

More than 70% of the fund's holdings are small or medium cap stocks. Less than 10% are large cap and less than 5% are giant cap. This contrasts with the category average, nearly 70% of which consists of large and giant cap stocks.

This fund also departs with its peers in terms of its regional makeup. Though more than 76% of the fund's stocks are American, ETFMG has a sizeable stake (nearly 18%) in stocks from Greater Europe as well. This is more than five times the category average.

ETFMG has shown a steady upward trend this year, starting at $26.66 on January 3 and currently trading at $30.01.



First Trust NASDAQ Cybersecurity ETF (CIBR). This ETF tracks the Nasdaq CTA Cybersecurity Index. The Index, in turn, is designed to track the performance of companies engaged in the cybersecurity within the technology (91.69%) and industrial (8.31%) sectors.

Given that it tracks a NASDAQ index, this is a stock-only fund, with just 0.12% invested in cash. Its biggest holdings are tech heavyweights Palo Alto Networks, Cisco Systems, Symantec Corp, Akamai Technologies, and Juniper Networks.

The fund's market cap mix contrasts with the category average across the board. Nearly half the category average is giant cap (47.4%), with an almost equal percentage of large and medium caps (21.68% and 21.5% respectively). Only 9.06% are small cap and a mere .36% are micro.

But giant caps make up less than 7% of the First Trust fund; large caps are less than 15%. The fund invests more heavily in small caps (31%) and medium caps (39%). Nearly 9% of the fund's portfolio is made of micro caps.

Since this EFT was introduced in 2015, it has focused primarily on mid-cap growth funds. Over the past year, the fund is up more than 12%.

Vanguard Information Technology ETF (VGT). Vanguard Information Technology ETF tracks the performance of the MSCI US Investable Market Information Technology Index, holding technology stocks of all cap sizes.

VGT's investments are focused in the U.S. and on computer, software, and internet companies. The ETF uses a market capitalization weighting methodology, and more than 60% of its portfolio consists of giant cap stocks. Its biggest holdings are Apple, Microsoft, Facebook, and Alphabet (Google's parent company).

This ETF has more cash funds compared to some of the other cybersecurity funds, but still a negligible amount (.3%). Other than that, 97.23% of the fund is US stocks, and the remainder is foreign stocks.

VGT is one of the older ETFs in the cybersecurity sector, having been established in 2004. It has grown 203% since its introduction. For the past ten years, Morningstar has rated the fund a below-average risk with an average return.

The fund is having a strong 2017, having gone from $122.46 at the beginning of the year to $152.22 currently.

Bonus: Direxion Daily Cyber Security & IT Bull 2X Shares (HAKK). This is a leveraged ETF—a fund that uses derivatives and debt to magnify the returns of an underlying index. These funds aim to keep the amount of leverage consistent compared to the index, often in a 2:1 or 3:1 ratio.

Direxion Daily Cyber Security & IT Bull 2X Shares seeks to double (200%) the daily performance of the ISE Cyber Security Index. The Fund seeks daily leveraged investment results and does not seek to achieve its stated objective over a period of time greater than one day.

This fund's assets are completely cash (105.78%), with a negative stock balance (-5.78%) due to either a short position or derivative. This fund is different and much riskier than most ETFs and is best suited for short-term investments.

Since it was started two years ago, the fund is up from $40.60 to $49.65.

Stop the Hackers While Growing Your Portfolio

The world can be a scary place these days—both online and offline. We're facing daily threats to our livelihoods that simply didn't exist a few short years ago.

But you can help fight back by investing in some of the companies that are working against the hackers...

And make great return in the process.

An ETF is an easy way to get started, so talk to your broker about the ones we tell you about here. And if there’s ever further news about any of them, we’ll let you know in an email news bulletin.