- Tim Buckley takes over as chief executive officer of $4.7 trillion fund giant Vanguard Group
- As 2017 ends, it's set to be the ninth consecutive year of positive S&P 500 total returns, tying a record
- A package of new regulations for European financial firms, known as MiFID II, goes into effect

ETFs *Now With* POLITICAL OPINIONS

● Is arguing with relatives over the holidays not enough fun for you? Try partisan investing

Money-management companies have already tried to sell people exchange-traded funds linked to booze and overeating. So it probably shouldn't come as a shock that they're moving on to an even touchier region of the American psyche: politics. Believe it or not, not everyone thinks that's such a great idea.

Take the U.S. Tax Reform Fund, ticker TAXR, from Active Weighting Advisors LLC's EventShares brand. It tracks companies that will supposedly benefit from tax cuts and policies that help exporters. The ETF, which counts Copart, Magellan Health, and Caleres among its top holdings, has lured about $5 million in investments since its launch in October, tiny by industry standards.

The same company introduced other funds in October that purport to provide exposure to political and policy-driven ideas. EventShares Republican Policies Fund, ticker GOP, and EventShares Democratic Policies Fund, symbol DEMS, employ hedge fund-like strategies by buying companies that may benefit from party policies and also shorting those that could be hurt—that is, betting on their prices to drop. "We believe that policy can drive market returns, particularly in politically sensitive times such as today," says Ben Phillips, chief investment officer at EventShares.

Unlike with popular ETFs that passively track widely followed indexes such as the S&P 500, the EventShares funds are actively managed and aren't particularly low-cost. They charge 0.75 percent to 0.85 percent of assets per year, compared with less than 0.1 percent for many of the big index funds. Each fund also represents a double bet: that the political agenda it tracks will prevail and that the stocks it has picked will actually benefit, says Ben Johnson, director of global ETF research at Morningstar Inc. Getting even a rough sense of how governments influence share prices is a task fraught with peril, as anyone who shorted U.K. companies since the Brexit vote can attest—they've risen about 19 percent.

Campbell Harvey, a professor of finance at ▶

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◀ Duke University, says an investor should ask whether the manager of a tax-reform-themed ETF "has superior information in terms of the implications of tax reform" that the market hasn't already accounted for. The answer is likely no, says Harvey, who is also an adviser to Research Affiliates LLC, a company that designs index strategies used by ETFs.

"Aligning yourself with one of these causes because you think it's going to outperform is a fool's errand," says Dana D'Auria, director of research at Symmetry Partners LLC. Other investors might be drawn to such a fund just because they like the politics it represents. "We live in a time where people can leverage their investments to make a statement," says D'Auria. "Just make sure you're well-diversified, because the hit you potentially take for this choice is worse than you might think."

The GOP ETF is focused on defense and border protection, deregulation, infrastructure, and U.S. energy independence; it also has a bucket for tax reform. It owns companies such as Cheniere Energy Inc., a U.S. natural gas transporter, because Phillips thinks they'll benefit from potentially less stringent regulation. The fund may short Kansas City Southern, a company that gets half its revenue from Mexico. DEMS, on the other hand, focuses on health-care expansion, environmentally conscious companies, education reform, and finance reform. It holds health-care stocks such as Molina Healthcare and will short financials like Goldman Sachs Group.

These ETFs differ from an earlier politically themed fund, which started trading in September. Known by its ticker, MAGA, the Point Bridge GOP Stock Tracker ETF follows companies whose employees and PACs are highly supportive of Republican candidates. Its approach is more passive: It plans to hold the same stocks through an election cycle. Buyers poured more than $30 million into the fund in its first six weeks.

For those who claimed stakes in TAXR close to its launch, the fund has outperformed MAGA and the S&P 500. But it's impossible to make a judgment on such a short record. And with tax reform passed by Congress, what's next? Can a bet on new legislation still pay off once everyone knows it's coming and can account for it in stock prices? Or can the effect last another month? A year? A decade? EventShares' Phillips says all of the above, as even Obamacare continues to be relevant today.

Throughout its history, the ETF industry has often found itself walking a fine line between what customers want and what they need. The most popular ETFs provide broad exposure to the markets and can be basic building blocks of almost any portfolio. But there's not much demand for yet another S&P 500 fund–giants such as Vanguard Group Inc. and BlackRock Inc. have that covered. That leaves smaller competitors scrambling to claim niche ideas.

"These new ETFs will prosper or wilt based on consumer demand," says Reggie Browne, senior managing director at Cantor Fitzgerald, which does some of the behind-the-scenes institutional trading that makes ETFs work. "The forces of free markets will prevail." About the political ETFs, Morningstar's Johnson is less diplomatic. "What you see here is a marketing gimmick, at the end of the day," he says. "It's nothing that has real lasting investing merit."
—Carolina Wilson

THE BOTTOM LINE Funds that bet on politics have to be right about both the direction of policy and which stocks will benefit. That's a tall order.

Guaranteed Sales Fuel the Art Market

● Sellers want peace of mind, so auction houses are prearranging bids

From the moment Christie's announced plans to sell a painting by Leonardo da Vinci, the buzz around the 500-year-old canvas swirled from Hong Kong to San Francisco. Naysayers questioned the authenticity of the rediscovered masterpiece, *Salvator Mundi*, but that didn't stop more than 30,000 people from lining up to view the work during a whirlwind global tour. On Nov. 15 some 1,000 people packed into Christie's salesroom in Midtown Manhattan, across from Rockefeller Center, to witness the event. Art world insiders were taking bets on the outcome.

It sold for a record-shattering $450 million. But the work already had been guaranteed to sell for more than $100 million weeks before the auction, thanks to a prearranged bid. Only 12 other artworks have ever passed that price milestone.

"If you've got a $30 million work of art, it's an incredibly important asset for an individual or a family"

Over the past decade, such guarantees have become a must for the world's top two auction houses, Sotheby's and Christie's Inc., as well as some smaller houses like Phillips Auctioneers LLC. The guarantees help the houses land the next big trophy work and gain greater market share. For sellers, the guarantees are like an insurance policy. "It became absolutely de rigueur that they ask for a guarantee option," says Ed Dolman, a former Christie's chief executive officer who now fills that role at Phillips.

To persuade collectors such as billionaires Steven Cohen and Paul Allen to part with their works,