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INVESTING

New ETF Charges Up a Niche

By CAROLYN CUI

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Call it ETF on demand.

Bolivian magnate R. Marcelo Claure had been looking for a way to make a broad-based bet on lithium. A hedge fund in which he invests found him one.

The fund, MC Capital Advisors, this year turned to a company that creates exchange-traded funds. The result was Global X Lithium, an ETF that tracks lithium producers and battery makers. It is expected to launch this week.



R. Marcelo Claure sees lithium as the 'commodity of the future.' *Agence France-Presse/Getty Images*

MC Capital provided seed money to New York-based Global X Management Co., to start the ETF, and will receive half the ETF's profits.

Global X Lithium is an unusual case of ETF creation. But it also is part of a trend in which ETF firms are joining forces with other companies to launch funds that track obscure parts of the financial markets. ETFs typically are tradable securities designed to track an index of stocks, bonds or commodities.

Among ETFs soon to be released are funds designed to track small-cap companies in Thailand, producers of rare metals such as gallium and selenium, and shares of fishing-related companies.

"It's harder and harder to come up with simple, obvious and good ideas," said John Hyland, chief investment officer of U.S. Commodity Funds, which runs eight energy ETFs, including the U.S. Oil Fund and U.S. Natural Gas Fund.

Mr. Hyland's company is about to launch an ETF designed to track commodities whose current contract is trading at a premium to future contracts, generally a sign of tight supplies,

along with long-term trends. The idea was pushed by SummerHaven Investment Management, a Connecticut investment firm, Mr. Hyland said.

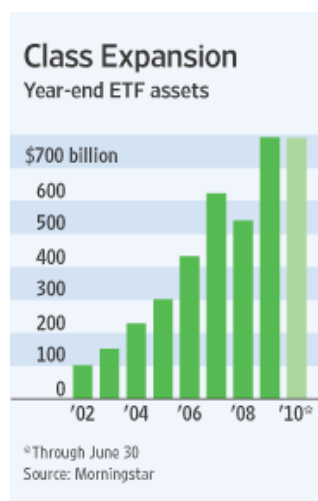
This month, AdvisorShares, a Maryland ETF firm, launched the Mars Hill Global Relative Value ETF, which uses a hedge-fund-like strategy to invest in stock ETFs. It was initiated by, and named after, Colorado money manager Mars Hill Partners.

SummerHaven and Mars Hill don't have a financial investment in the ETFs, but will manage the funds and earn fees, the firms said.

All are responding to demand for ETFs. In the U.S., there were 914 listed ETFs at the end of June, up 21% from a year ago, according to the National Stock Exchange, a data provider. Since 2007, ETFs have raked in \$480 billion in net cash inflows, bringing total assets to \$780 billion.

Initially, ETFs were based on broad indexes like the Standard & Poor's 500-stock index; then, they expanded to track industry groups and markets such as gold or oil. Now, they are finding smaller niches.

MC Capital, along with Mr. Claire, was interested in lithium. In February, the hedge fund called Global X Management to suggest the idea of creating a lithium-related ETF. MC Capital wasn't involved with the specifics of the index construction, and won't have inside access to any trading information, said Guillermo Trias, a portfolio manager at the fund.



"What everybody wants to achieve is to build the best and most representative index for lithium," said Bruno del Ama, chief executive of Global X Management. He said the firm already was considering such a fund. Global X hired Structured Solutions AG to develop an index comprising about 20 companies.

Mr. Claire, the Bolivian magnate, said in an email he had spent years looking for an easy way to invest in lithium. The 39-year-old is the founder of Brightstar Corp., one of the world's largest distributors of hand-held devices, with \$3 billion in revenue in 2009. His Bolivian roots got him interested in lithium, he said, because the country has one of the world's largest deposits.

The highly reactive metal isn't traded on any commodity exchange. Companies producing lithium are either multinationals where lithium accounts for only a small portion of their businesses or nascent miners

where production still is years away.

While lithium is commonly used in batteries for cellphones and other electronic gadgets, its brightest future appears to be in the movement toward electric cars. Tesla Motors Inc. 's Roadster runs on thousands of small lithium-ion battery cells.

Lithium prices have tripled since 1999, according to Credit Suisse. Global demand for the metal is expected to more than double by the end of this decade, according to TRU Group Inc., a Toronto independent consultant specializing in lithium.

Some analysts warn against the "overhype" in the lithium market. About 50 companies were set up over the past two years to develop lithium, but more than 80% of them will never come into production due to technology challenges and costs, said Edward Anderson, president of TRU Group. Lithium also is in abundant supply, he said.

Still, Mr. Claire said he sees lithium as the "commodity of the future" and will expand his investments in the industry over the next few years. Higher lithium prices, he said, also will bring in more investment to his home country.

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