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Stupid Investment of the Week

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Commentary: Harry Dent's new ETF might scratch your portfolio

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BOSTON (MarketWatch) -- Tell the people what they want to hear, and they will flock to your door.

Alas, the investors who beat a path to the door of market forecaster and money manager Harry S. Dent arrived just in time to take a beating.

So now that Dent is opening his investment doors again in the form of a new exchange-traded fund -- the AdvisorShares Dent Tactical ETF -- anyone who falls for the sales pitch will be making the Stupid Investment of the Week.

Stupid Investment of the Week highlights conditions and characteristics that make a security less than ideal for the average consumer, and is written in the hope that showcasing danger zones in one case will make it easier to avoid trouble elsewhere. The column is not meant as an automatic sell signal, although the new Dent-run fund DENT launched in mid-September and hasn't had much time to attract fans.

Boom and bust

That said, Harry Dent has always said the right things to attract fans. During bull markets, he has been bullish enough to make investors stay happy. During bearish periods, he has warned of coming depressions. On the surface, that would seem to be a recipe for success, except that history shows Dent's predictions, forecasts and performance can be a bit off.

The personable, charismatic Dent runs H.S. Dent Investment Management in Tampa, Fla., though he is best known for several best-selling books. Dent's main shtick has been predicting the impact of consumer spending patterns on the financial markets, a demographic trend that led him to forecast in the late 1980s that the Japanese economy -- then one of the fastest-growing economies of the world -- was about to enter prolonged downturn. (Bullseye.) In the early 1990s, he said the Dow Jones Industrial Average would hit 10,000. (Bingo.)

Then there was his book "The Roaring 2000s," where Dent predicted that this decade would enjoy strong economic growth, with the Dow reaching 35,000. (Wrong.) And in "The Next Great Bubble Boom," he suggested Dow 40,000 and called for 2006-2010 to be the greatest boom in market history (I think not.)

But the good calls leading up to the end of the bull market built Dent a big following, and led AIM to give him his own mutual fund. AIM Dent Demographic Trends was started in mid 1999 and quickly grew to about $1 billion in assets, largely on the strength of a 55% gain in its first seven months of existence. But it lost 17% in 2000 and 32% in both 2001 and 2002 -- all significantly worse than its peer group. Assets in the fund shriveled, and while performance picked up in 2003, it was never much above average.

Fender bender

With investors fleeing and assets down about 80% from their peak, AIM sacked Dent and merged the fund out of existence in July 2005; the fund's total loss over its lifetime was over 11% -- a hair under 2% per year -- or about double the loss of its peer group.

With that record, it's a bit of a surprise anyone is giving Dent another crack at running a fund using the same, demographics-based investment strategy. But circumstances in the market have changed, and the always-entertaining Dent has changed with them.

For starters, the evolution of exchange-traded funds has now spread to include "active management." Whereas ETFs were once built like passive index funds but traded like stocks, they now include actively managed portfolios. AdvisorShares is a relatively new entrant to the business, and if you come late to the party and want to attract attention, celebrity is a useful tool; it's what the firm is doing by putting Dent at the helm.

And these days, Dent is the "sage of gloom and doom," literally selling negativity to the masses in the form of his most recent book, "The Great Depression Ahead." It was not hard to be negative -- and to find like-minded followers -- once the recession was underway and the "bubble boom" hooey proved to be folly.

Despite the manager's negative view of the big picture, Dent Tactical is not a bear market fund; it currently looks a bit like a global fund with a big slug of large-cap stocks mixed with a chunk of preferred stocks and a bit of a tilt towards financials. Judging from available portfolio information, it's hard to recognize anything that sharply distinguishes the portfolio as a play on the world's changing demographics.

"A strategy of using demographic trends to make quick tactical shifts doesn't make any sense," said Will McClatchy, co-founder of ETFZone.com. "Demographic trends take years to play out. Exploiting them is a fine idea. But you should make long-term bets through passive, low-cost ETFs."

Dent's new ETF is neither passive, nor low-cost. It's a fund of ETFs, buying and trading other funds to pursue Dent's vision, layering its own management costs (0.95%) on top of the expenses of those other funds. With a gross expense ratio of 1.56%, it sports the highest cost of any ETF on the market, according to investment researcher Morningstar Inc. -- and that's before an investor pays the transaction costs to buy in.

"What it boils down to is that you're paying Harry Dent to manage an ETF wrap portfolio for you," said Scott Burns, director of ETF analysis at Morningstar. "If you already have an asset allocation or you already own ETFs, Harry Dent is just duplicating what you're doing, with his own twist on it. Right now, it looks kind of like a balanced fund, but it's all over the place, so it really doesn't fit unless you make it the core of your portfolio."