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Ten ETFs No One Is Thankful For

The ETF industry has grown by leaps and bounds over the last five years and innovation across products has brought forth a multitude of previously inaccessible investment strategies to mainstream investors. Aside from the vast expansion in the exchange-traded product universe, the last five years have been nothing short of a roller coaster ride. Global financial markets witnessed an unprecedented economic downturn after the collapse of the U.S. housing market, only to stage a truly remarkable recovery in the years following.

There are now more than 1,350 ETPs available on the market, most of which are relatively new introductions to investors. Those with longer track records have endured some severe losses in recent years, putting a significant dent in many portfolios; of the 330 or so available prior to November 2006, close to half have delivered negative returns. Amidst the chaos in the markets in recent years, some exchange-traded products have delivered stellar gains over the last five years, and likewise many have incurred serious losses. Last week we highlighted the ten best ETF performers over the last five years, including a number of funds that have turned in surprisingly strong performances during one of the most volatile periods in financial history [see Ten Best ETF Performers Over The Last Five Years].

In the spirit of equality, this week we are taking the time to highlight the not-so-pretty side of the exchange-traded universe, as we highlight the ten worst performing ETFs over the last five years:

10. iShares Dow Jones U.S. Home Construction Index Fund (ITB): Down 69%
It shouldn't be much a surprise to see this home builders ETF at the bottom of the barrel considering the severity of the housing market crisis at home, which was exacerbated by the global financial meltdown. ITB holds a basket of about 50 securities and offers exposure to the performance of the home construction sector of the U.S. equity market.
....
9. Lux Nanotech Portfolio (PXN): Down 65%
It's a bit of surprise to see this ETF make the "worst performing" list, considering that the tech sector has been one of the leading drivers of economic growth coming out of the market slump in 2008. PXN's underlying index is designed to identify a basket of companies involved in developing, manufacturing and funding nanotechnology applications. ....
8. WilderHill Clean Energy Portfolio (PBW): Down 65%
Alternative energy has gained tremendous popularity over the past few years, however, our dependence on cheaper fossil fuels has unfortunately delayed serious commitments (and investments) to developing clean energy sources. PBW is the most popular offering in the Alternative Energy Equities ETFdb Category, with over $260 million in assets under management. This ETF tracks an index that is designed to deliver capital appreciation through the selection of companies that focus on renewable sources of energy and technologies that facilitate cleaner energy.
7. iShares Dow Jones U.S. Financial Services Index Fund (IYG): Down 61%
The U.S. financials sector remains grossly beat down as the impacts of the recent financial crisis have proven to be much more serious than previously thought, hindering

the recovery of many businesses in this corner of the economy. IYG is designed to give investors access to the domestic financial sector, and its underlying index tracks the performance of the biggest firms in the financial services industry segment of the U.S. equity market. ....

6. Listed Private Equity (PSP): Down 57%

This unique ETF offers exposure to publicly-traded private equity firms, giving all types of investors easy access to an asset class that would other wise be difficult to tap into. Unfortunately, private equity valuations were hammered during the financial crisis, and even impressive recoveries in the subsequent years have not returned PSP to pre-recession levels. ....

5. iShares Dow Jones U.S. Broker-Dealers Index Fund (IAI): Down 55%

Financial service companies have endured serious headwinds as the recent financial meltdown paved the way for tougher regulations, which has inevitably impacted the recovery and profitability of firms in the sector. ....

4. iShares MSCI Italy Index Fund (EWI): Down 53%

Italy has been in the spotlight most recently due to its towering deficit and political drama plaguing the nation, so it shouldn’t be much of a surprise that it is the laggard in the Europe Equities ETFdb Category and one of the worst performers over the last five years. ....

3. iShares MSCI Belgium Index Fund (EWK): Down 49%

This is perhaps the biggest surprise on the list considering that Belgium is home to one of the highest standards of living in the world. A closer look under the hood reveals that although wealthy, this nation has long struggled to keep a balanced budget, as public expenditures have far exceeded tax revenues in recent years. ....

2. iShares MSCI Austria Index Fund (EWO): Down 46%

Austria is one of the richest countries in the word in terms of GDP per capita, but deficit problems of neighboring nations and sluggish growth in the Euro zone have inevitably hurt its small, export-reliant economy. ....

1. iShares Dow Jones U.S. Insurance Index Fund (IAK): Down 40%

Much like the financial services sector, the insurance sector has also been brutally beat down as a result of the financial crisis. IAK has just about $75 million in assets under management and this ETF has struggled to gain much traction as the outlook for the insurance sector remains clouded with uncertainty. ....