From The Chart Room

Right Time For REITs

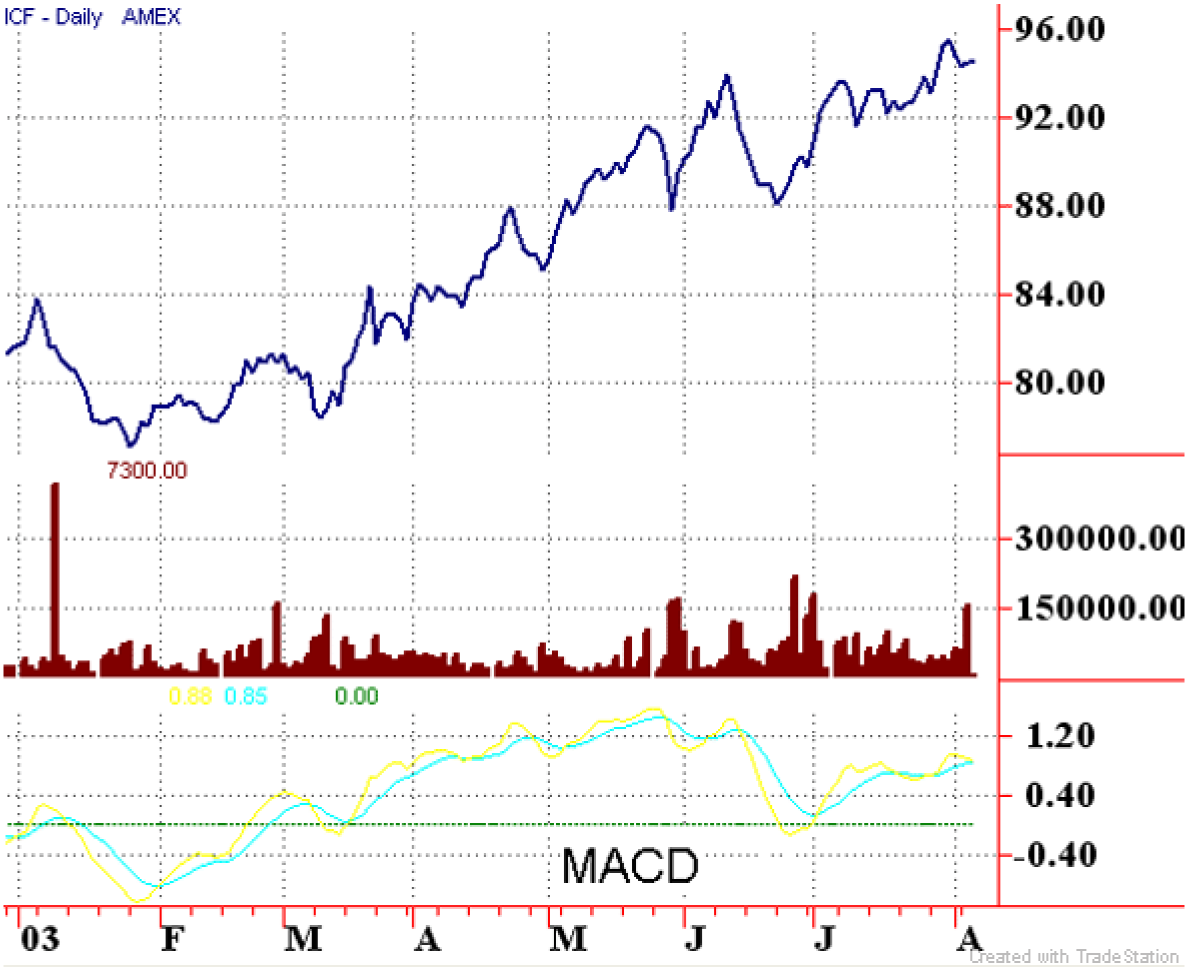
Ben Berentson, 08.07.03, 12:00 PM ET

Marvin Appel, the editor of Systems & Forecasts, is not in a bullish mood. "The investment climate looks riskier now after stocks' outsized gains since mid-March," he says. "I think the market has clearly changed its momentum from rising to sideways." Mixed data on the economy have again stalled the market, which topped out in mid-June, and Appel has been searching hard for something with momentum. His answer might surprise you: real estate investment trusts. Why? According to Appel, "Corporations that own existing retail properties stand to benefit as development of new competing properties slows down in a climate of higher interest rates."

He adds that the current steady, but not spectacular, economic growth will allow most REITs to grow or at least maintain their current levels of rental income. His recommendation in the area? The **Ishares Cohen & Steers Realty Majors** exchange-traded fund, which trades on the American Stock Exchange under the ticker symbol ICF. Holdings include **Simon Property Group** (nyse: SPG - news - people), **Equity Residential** (nyse: EQR - news - people) and **Equity Office Properties Trust** (nyse: EOP - news - people). The exchange-traded fund currently trades for around $94.

Technically, the stock has recently outperformed the S&P 500. ICF has been in an uptrend since mid-June, when the market turned, and has made a new high in July. The exchange-traded fund also is one of the few stocks out there now in a positive MACD pattern, which shows good momentum and relative strength.

ICF currently yields 5.2% per year. And, in Appel's eyes, its low expense ratio of 0.35% makes the exchange-traded fund that much more attractive: "Typical real estate mutual funds have expenses that exceed 1% annually, which really cuts into the dividend payout." He sees a return of about 8% per year (26% over three years with dividends reinvested) on this investment, which he thinks will outperform the S&P 500 over the next couple of years while carrying dramatically less risk. "The gains might not be eye-catching, but this is the best *investment* I see in this current environment," he says. Appel recommends waiting for a small pullback to $92 and then putting in a stop at $86.



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