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I cover Shark Tank and investing in ETFs and mutual funds.

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Stock Market Strategies: Best ETF And Mutual Fund Ideas For Second-Half 2017

The S&P 500 trades at a relatively high price-to-earnings ratio of 26 compared to a historical average of 15. Given an overpriced stock market, how should investors in mutual funds and ETFs position their portfolios?

Leave the U.S. for Foreign Shares

President, Daniel Beckerman, CFP®, ChFC® recommends investing in iShares Core MSCI EAFE ETF (IEFA). Europe and Japan make up the majority of IEFA. They are currently using quantitative easing which will juice those markets. Europe and Japan keeping interest rates low while the U.S. is gradually raising rates. The Federal Reserve raised short-term interest rates by 0.25% in June and is expected to do so again in late Fall.

Europe is several years behind the U.S. in its economic recovery, putting them at an earlier stage of their economic recovery. Quantitative easing is generally associated with rising stock prices, although they are not perfectly correlated. Allocating money in Europe and Japan is like swimming with the tide or investing with the wind at your back.

Investing in IEFA is preferred over the flagship iShares MSCI EAFE (EFA) because it charges an annual expense ratio of 0.08% — a third of the cost of iShares MSCI EAFE, 0.32%. With a turnover of less than 5% annually, it is very tax efficient. IEFA is also more broadly diversified because it includes many small-cap companies that fall into the broad international index, which EFA ignores. IEFA holds 2,535 stocks from Europe, Australia, Asia, and the Far East, while EFA has about 900 holdings. IEFA returned 15% year to date versus 10% for the SPDR S&P 500 ETF (SPY), the U.S. benchmark. Longer term, IEFA gained 14% and 2% over the past one and three years annualized. Meanwhile, SPY rose 18% and 10% annualized over the same periods.

IEFA trades a price-to-earnings ratio of about 18 and a price-to-book value of 1.7 while yielding 1.95%. By contrast, SPY trades at 21.5 times earnings and 3 times book value while yielding 1.85%. International investors have lagged for several years due to slow economic growth throughout many countries, demographic issues in Japan, and the potential for a deterioration of the European Union. But, this is what has set the stage for better forward-looking performance, making valuations look favorable for these international markets. Corporate earnings in Europe and Japan are also superior to the U.S. this year. First quarter earnings of international companies affirm that the recovery which began in the last quarter of 2016 has continued.