

EDITED BY TODDI GUTNER

## INVESTING

# Succor for Index Funds

**CALL IT A REVERSAL OF** fortune for the index funds. For years, hotshot traders including hedge funds have exploited a lucrative opportunity to profit at the expense of index-fund shareholders. When index publishers such as **Standard & Poor's** announce the addition of a new stock to an index, traders buy up shares. The goal? To sell the shares to index funds on the day the stock is officially added—at a profit.

For index-fund investors, the good news is that this game exacts a smaller penalty than it once did. From mid-1998 to mid-2000, traders who pursued such a strategy on the S&P 500-stock index earned a median of 8.9 percentage points more than the index' return, according to S&P (like *BusinessWeek*, a unit of The McGraw-Hill Companies). Of course, this drove up the prices the index funds paid. But from mid-'02 to mid-'04, the extra return dwindled to 3.6 percentage points. The same pattern also held for the S&P MidCap 400 and the S&P SmallCap 600. The trend shows that "if there's an arbitrage opportunity, it will get arbitrated away," says a pleased Gus Sauter, chief investment officer of **Vanguard Group**, which runs \$350 billion in indexed mutual funds.

—Anne Tergesen



## TAXES

# STRIKING DOWN A STEALTH ESTATE TAX

**WHILE THE FEDERAL** estate tax is scheduled to disappear in 2010, some states that until recently were entitled to a cut of this revenue have devised ways to hold on to their share. But the **Supreme Court of Washington** recently ruled its system unconstitutional. Like many states without a separate estate tax, Washington got a piece of the federal estate tax. But as the feds phased out this revenue sharing arrangement, Washington continued taking the same estate tax revenue it was entitled to in 2001, says Blanche Lark Christerson, a managing director at Deutsche Bank Private Wealth Management.

In effect, the court said if Washington wants the money, it should enact its own law, Christerson says. The decision may have implications for the 15 or so other states, such as Illinois and New Jersey, with similar systems. And estates of people who have died since 2002 and have paid Washington tax may be entitled to a refund.

—Anne Tergesen

## CURRENCIES

**SPECULATORS BETTING ON** a weaker dollar are not just buying euros. There's a record runup in the number of long futures contracts in the **Mexican peso** and **Australian dollar**, causing those currencies to rise against the greenback. Since September the peso has gained 5%, and the Aussie currency 15%. But such a one-sided buildup often signals that a trend has run its course, so look for the U.S. dollar to stage a rebound.

—Aaron Pressman



Data: Commodity Futures Trading Commission

## GOLF

# GETTING IN THE RIGHT GROOVE

**IN GOLF**, the key to a perfect shot is making sure you swing your club on the proper arc. Now a high-tech club can help you determine whether you're in the right groove. The \$649 LS100 driver from **SmartSwing** ([smartswinggolf.com](http://smartswinggolf.com)) has special gyroscopes and circuitry built into the shaft that track the exact arc of up to 100 swings per round. After you're done, simply download data from the club into your computer via a special USB device and compare your actual swings against the ideal golf stroke.

—Dean Foust



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