

## >: 9 Ways to Play the Next Move Lower

Wednesday, June 24, 2009 / Teeka Tiwari

A couple of weeks ago, I wrote an article titled "[When Trouble Spells Opportunity -- The Next 3 Sectors to Short.](#)" where I profiled three sectors that I thought were getting close to posting a *Sector Huntersell* signal.

Those sectors were oil services, steel and Latin America. Of the three, two of them (oil services and steel) have now put in an official *Sector Hunter* sell signal and can be considered shorting candidates. Latin America is close to putting in a sell, but it's not there yet.

### Make Gains When the Markets are Losing Theirs

We're seeing a big breakdown in both the Dow Industrials (DJI) and the S&P 500 (SPX) that, without some miracle buying, is going to take both of those indexes lower. In fact we've already seen the S&P 500 give up all of its gains this year.

What's different about this pullback from similar pullbacks that we've seen since the March lows is that many sectors are now feeling the pain.

Over at *Sector Hunter*, we saw wholesale liquidation of stocks taking place across 10 sectors over the last five trading days. That's a *massive* amount of selling. We've also seen the New York Stock Exchange Bullish Percent reverse from Xs (which represent rising prices) to Os (which represent falling prices) from above 70% to below 70%.

This is another clear indicator that the sellers have taken over the driver's seat from the buyers.

### It's Time to Shift Gears

When you see these types of confirmation signals across broad swaths of the market, the appropriate strategy is to sell into the rallies. You want to either sell your long positions or hedge with put options. You also want to start shorting, and a great place to start is with all the major indexes and the sectors I've referenced in this article.

If you are looking for more reasons to be bearish, then check out this article on [Bloomberg](#). Insiders are dumping shares at the fastest pace since June 2007. Does that date sound familiar? It should, as that's the month the Dow peaked at 14,000!

I have no idea whether we will revisit the lows, but if we break below 7,800 on the Dow and below 800 on the S&P 500, then the chances are high that we could. Don't panic, though -- use this as an opportunity to make some money on the short side of the market.

With all that said, the Nasdaq has actually been performing quite a lot better than the S&P and the Dow. However, the Nasdaq has underperformed both of those indexes on this recent run-up and didn't get anywhere near as overbought. Right now the Nasdaq is in more of a "neutral zone" and isn't on an overt buy or sell signal here.

### What's the Best Way to Profit?

Exchange-Traded Funds are a terrific tool for getting short. You can buy an inverse index ETF or simply short a regular index ETF.

Remember, inverse ETFs go up as the index they track goes down. The big advantage of inverse ETFs is that they can be bought in IRA accounts, which would otherwise restrict direct shorting.

I'm going to share a few ETF ideas with you, broken down by index.

### DOW JONES INDUSTRIAL AVERAGE

#### Dow Diamonds (DIA)

-- This is a bullish ETF that mimics the movement of the Dow 30 stocks. To profit from a downward move in the Dow, you can sell it short or buy put options.

**ProShares Short Dow 30 (DOG)**-- This aptly named ETF is an inverse ETF and can be purchased in an IRA. As the Dow goes down, this ETF goes up.

It's similar to shorting the Dow Diamonds. If you're looking to play options on an inverse ETF, you would buy calls because the ETF rises as the index it follows goes down. That's an important distinction!

#### ProShares UltraShort Dow 30 (DXD)

-- This is an UltraShort ETF on the Dow 30. The word "ultra" means that this is a leveraged ETF. That is, this ETF delivers 200% of any move in

the Dow.

Because it is a short ETF, if the Dow goes down 1%, this will move up 2% ... and vice versa. Leveraged ETFs are really meant for daytraders and experienced market participants. They also trade options and you would use call options on the DXD if you believed that the Dow was going lower.

## **S&P 500**

### **SPDR S&P 500 ETF (SPY)**

-- These are affectionately known as "the Spiders." This is a bullish ETF that mimics the movement of the S&P 500. To profit from a downward move in the S&P 500, you can sell the SPY short or buy put options.

### **ProShares Short S&P 500 (SH)**

-- As the S&P 500 goes down, this ETF goes up. It's the equivalent of shorting the Spiders. As above, if you're looking to play options on an inverse ETF, you would buy calls. Remember, an inverse ETF rises as the index it follows goes down.

### **ProShares UltraShort S&P 500 (SDS)**

- This is another UltraShort ETF, but this one covers the S&P 500. Again, the word "ultra" indicates that this is a leveraged ETF. This ETF delivers 200% of any move in the S&P 500.

Because it is a short ETF, if the S&P goes down 1%, this will move up 2% ... and vice versa. SDS also trades options; you would use call options on SDS if you believed that the S&P 500 was going lower. However, buyer beware: Trading leveraged ETFs is a big boys/girls game and is not for the faint of heart.

## **S&P MIDCAP 400**

The S&P MidCap 400 just posted a sell signal as well, and if you are looking for a way to short it, here are a few ideas.

### **S&P MidCap 400 SPDR (MDY)**

-- This is a bullish ETF that mimics the movement of the S&P MidCap 400. To profit from a downward move in this index, you can sell MDY short or buy put options.

### **ProShares Short MidCap 400 (MYY)**

-- As the S&P MidCap 400 goes down, this ETF goes up. It's the equivalent of shorting the MDY. As above, if you're looking to play options on an inverse ETF, you would buy calls. Remember, an inverse ETF rises as the index it follows goes down.

### **ProShares UltraShort MidCap 400 (MZZ)**

-- This is an Ultra Short ETF that covers the S&P MidCap 400 index. Again, the word "ultra" denotes that this is a leveraged ETF. This ETF delivers 200% of any move in the MidCap 400.

Because it is a short ETF, if the MidCap 400 goes down 1%, this will move up 2% ... and vice versa. MZZ also trades options; you would use call options on MZZ if you believed that the MidCap 400 was going lower. Remember; buyer beware: Trading leveraged ETFs is a big boys/girls game and is not for the faint of heart.

## **In 'Short' ...**

Nothing is 100% guaranteed, so remember to have your stop-losses in place should some miracle occur and the market staves off the devastation that appears to be brewing on the horizon. If you don't go short here, then at the very least you should seriously consider buying some protective puts on your outstanding long positions.



Teeka Tiwari  
Chief Investment Officer

>

