

## >: How to Profit From the Decline Using These ETFs!

Tuesday, March 3, 2009 / Chris Rowe

Don't be afraid to take bearish positions here. The market probably goes at least 15 - 20% lower, and that might hit some of the stocks you own by 50% (so don't just focus on the possible percentage decline of the general market when considering your exposure to more downside).

Although I typically like to use in-the-money put options to play the downside, the prices of options are going to be expensive as people become more fearful (due to increased volatility) and are willing to pay more for them. So it makes sense to start looking to the Short ETFs, the Ultra Short ETFs and, if you really want to dance with the devil, the newer Triple Short ETFs.

If you're just day trading the downside, and don't even really have bullish positions (that are getting hammered right now) then you might be rolling with the devil on these Triple Short ETFs, as they are incredibly volatile. You can make a fortune or just get your butt handed to you with a ribbon on it - "nice doin business wit ya." If you have a portfolio with WAY TOO MUCH bullish exposure (and you are getting hammered right now) then I wouldn't even call the Triple Short ETF trade a dance with the man downstairs. Instead, it just might be your savior in an otherwise bloody market.

### What are the Triple Short ETFs?

I'm sure you have already guessed what this is all about. There are 300% leveraged bullish ETFs and there are 300% leveraged inverse ETFs. For example:

- Large Cap (Russell 1000) Bull 3X Shares (BGU)
- Small Cap (Russell 2000) Bull 3X Shares (TNA)
- Energy (Russell 1000 Energy) Bull 3X Shares (ERX)
- Financial (Russell 1000 Financial Services) Bull 3X Shares (FAS)
- Large Cap Bear 3X Shares (BGZ)
- Small Cap Bear 3X Shares (TZA)
- Energy Bear 3X Shares (ERY)
- Financial Bear 3X Shares (FAZ)

Let's take FAZ for example. It seeks to replicate, net of expenses, 300% of the inverse daily performance of the Russell 1000 Financial Services Index. So if the Russell 1000 Financial Services Index declines by 10%, FAZ should increase by about 30% ... and vice versa.

Let me stop here for a second.

I would feel incredibly irresponsible if I didn't reiterate my warning about dancing with the devil. Most investors conceptually "get" leverage. You don't need me to explain that FAZ is three times as risky. But once you actually feel the sting a couple of times (and if you trade anything like this, odds are, that time will come at some point) you will take on a whole new respect for my warning. This is not a game. You can lose money - big time. It's kind of the same idea that using a medicine (even if it's used responsibly) can harm or kill someone. But medicine can also save your life or make you well again.

This isn't just some warning so I can say I told you so later. I care, and I want to show you how to hedge effectively. But you have to know that this is the type of thing that can make you massive profits when you trade it right, and that alone can lure you in, playing 5 times that amount, and that's when the trade goes the wrong way.

It's really easy in a market like this, one that has massacred so many trading accounts, to start to visualize *anything* as your great hope, the answer to your prayers, the lifeline that will pull you out of this mess and so on. DON'T DO IT. If you've lost 60% of your portfolio, you shouldn't expect to make it right back within 12 months. While this is definitely very possible, it's not if you take more losses you can't recover from. So use the tool to hedge in this latest market decline. Be smart, and don't overexpose yourself to these things.

Having said that, I'll tell you that you've got to have bearish exposure in a market like this. I also don't want to scare you out of profits. I wouldn't be so quick to exit these ETFs either if they move in the wrong direction. Because while the market may snap back for a quick rally, it's going to go lower than today's levels. So what do you do? You take a comfortable position and sit, as opposed to taking a position that's too big for your nerves and then limiting the downside too quickly. Don't try to use it for ultra-fast recovery.

### Now what about guidance?

I've been writing bearish articles (once again) since the recent top in January when I wrote ["WARNING: Sober Up in '09 - Be Prepared For Decline!"](#) You can read all past *Tycoon Report* articles [by clicking here](#).

I can give you at least some sort of guidance on the likely direction of the general market, but can seldom be very specific on sector activity or

trading ideas. But I will try to continue giving updates on the general market direction and condition when I write on Tuesdays. But for instant alerts when any of the broad sectors (about 45 different sectors) make significant changes in direction and condition, you can't find a better place than Sector Hunter.

My options trading service *The Trend Rider*

is a place where you'll get my interpretation of the market, and you'll get the ideas that I generate using Sector Hunter and a number of other tools. I decide what ideas to recommend based on the data that I gather.

Sector Hunter will give the sectors that are about to make a major move, and it will suggest several possible ways to play the sector activity that's about to occur.

Both services are great for different reasons. Basically, one involves human interpretation and opinion (TTR) which has its upside, and the other bypasses human interpretation and opinion (Sector Hunter) which has its upside.

No matter what you do, you have got to be willing to play the downside of this market. So in closing, I'll list some other inverse sector ETFs for you. The following are "Ultra Short" ETFs meaning they seek to replicate, after expenses, **200%** of the inverse daily performance of the sectors listed:

- ProShares UltraShort Basic Materials (SMN)
- ProShares UltraShort Consumer Goods (SZK)
- ProShares UltraShort Consumer Services (SCC)
- ProShares UltraShort Financials (SKF)
- ProShares UltraShort Health Care (RXD)
- ProShares UltraShort Industrials (SIJ)
- ProShares UltraShort Oil & Gas (DUG)
- ProShares UltraShort Real Estate (SRS)
- ProShares UltraShort Semiconductors (SSG)
- ProShares UltraShort Technology (REW)
- ProShares UltraShort Utilities (SDP)

Happy trading. Be safe!

?Profit from the Trend?



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