

>: How to Reduce Risk While Staying Invested

Thursday, March 22, 2007 / Chris Rowe

The market just sold off on *extremely*

heavy volume on February 27th. Then a second leg down on heavy volume on March 13th, which continued lower on the 14th, and actually broke through support (created on February 27th), but closed above that support.

The following days (last Thursday and Friday) failed to show much follow-through at all, and when the market traded higher, it was on some of the lightest volume that we have seen all year long. The light upside volume shows the reluctance of institutions to take the risk of jumping back in. Sometimes markets trade higher simply because the sellers are on the sidelines (and not because of any overwhelming buying causing stocks to push ahead).



Let's take a closer look ...

Now that the major indices have moved up and are either at or approaching their 50-day moving averages (a crucial point in the eyes of the technical analyst), the question is whether or not the market can not only *trade* above the 50-day, but *hold* above the 50-day as well.

I'm writing this at noon on Wednesday (about 20 hours before I'll send it to you). I don't know what impact the Fed will have had on the market by the time you read this, but whatever they say, and however the market reacts to it, just keep in mind that this Friday, the markets will find out if homes lost value in February when the National Association of Realtors reports last month's median home price.

This will be an interesting report, since January's report (which came out Feb. 27, when the Dow Jones Industrials shed over 500 points intra-day) showed that the median home price fell for the sixth straight month.

The good news is that when the market tanks, the strong stocks stand out and make themselves known, and the weak stocks that were being lifted by the rising market pre-correction ... well, they tank. So while it's nice to see stocks show their true colors, the bad news is that you might own one of the "closet dogs."

You probably hear the professionals telling you to "be cautious" or "reduce your risk exposure" or things of that nature. Then you hear other market experts telling you that now is the chance that you've been waiting for to buy your favorite stocks on sale.

Times like these can be very confusing, indeed. But one smart way to stay in the market, to stay in your favorite sectors, and reduce your risk at the same time, is to trade ETFs (Exchange Traded Funds). ETFs can give you exposure to the sectors that you favor (and, more importantly, that the market seems to favor) without having to take the risk of owning individual stocks. You can even look to the ultra ETFs, which offer you a 2-1 relationship with whatever index it tracks.