Business

Avoiding the losers

When most portfolio managers attempt to outperform the S&P 500 index they usually overweight the sectors or individual issues that they think will perform best. An alternative method is to eliminate the losers.

The ProShares ETF family just introduced a set of ETFs that allows investors to track the S&P 500 while eliminating the worst performing areas of the index.

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Market Pulse

The ProShares "Ex-Sector" ETFs track the S&P 500 while they eliminate one sector from each fund. Investors that anticipated the falling oil prices and the third quarter's 20-percent plunge in energy stocks could have owned the ProShares Ex-Energy Index (SPXE).

This ETF would have outperformed the S&P 500 by eliminating the holdings of what became the S&P's worst performing sector.

More recently, health care and biotechnology stocks fell hard. If this sector had you nervous then you could have held S&P 500 Ex-Health Care Index (SPXV).

Other Ex-Sector ETFs include S&P 500 Ex-Financials Index (SPXN) and ProShares Ex-Technology Index (SPXT). The expense ratio for each fund is 0.27 percent.

How important is a sector to the overall index? Here are the sector weightings: The financial and healthcare sectors each represent about 15 percent of the S&P 500 index, technology represents 22 percent and energy is 7 percent.

What are the risks? Needless to say there is still market risk. These ETF will have a high correlation to the S&P, so when the S&P 500 falls a lot, so too will these ETFs. Also, S&P indexes only hold large companies so large-company stocks will have a high index weighting.

In my book, "Exchange Traded Profits," I detail a high-growth sector rotation strategy. Unfortunately, holding two sector funds leads to a very volatile portfolio.

The new ProShares Ex-Sector ETFs provide a solution. They are less volatile because they are more diversified so an investor can rotate among these ETFs and win by avoiding the lagging sectors. Avoiding the losers can be as effective as overweighting the winners.

David Vomund is an Incline Village-based fee-only Registered Investment Adviser. Information is found at www.VomundInvestments.com or by calling 775-832-8555. *Past performance does not guarantee future results. Consult your financial advisor before purchasing any security.*