

## Profit Opportunities from the Short Side

The sector rotation in the US stock market has been fast and furious so far this year. The increased volatility has made profiting from the long or short side very difficult. The stock price graphs that follow for Alpha Natural Resources (ANR), Walter Industries (WLT) and CSX Corp (CSX) are examples of the volatile price moves in US stocks.



Over the past 10 weeks Alpha Natural Resources (ANR) had a 24% increase in price followed by a 21% decline; a 45% rally, 34% decline, 39% rally, 23% decline and a 21% rally. A call option purchase strategy would have incurred severe losses with the 21%, 34% and 23% declines in ANR stock and a put option purchase strategy would have been whipsawed by the 24%, 45%, 39% and 21% price increases in ANR stock.

In contrast to the volatile price moves in US stocks, most foreign stock markets have experienced clearly defined, consistent down trends. I like to use the cross over of the 50-Day EMA with the 100-Day EMA to define a trend. The price graph below for the South Korean stock market ETF symbol EWY shows the 50-Day EMA (red line) below the 100-Day EMA (green line) indicating a price down trend. The 50-Day EMA crossed below the 100-Day EMA in January when EWY was trading at 62.00. The price trend of EWY continues down and the price has declined below the January and March lows. Also, EWY continues to make new 52-week lows indicating further price declines are likely.



The 2 price graphs below for the Germany and Emerging Markets stock market ETFs indicate similar price action as most foreign stock markets are in pronounced and consistent down trends.





These international ETFs offer good profit opportunities from the short side. I have been purchasing put options on international stock index ETFs. These put options profit as the underlying ETF stock index declines in price. I have also been purchasing 'short' or 'inverse' ETFs for international ETFs that move inverse or opposite to the price movement of the underlying ETF. If the underlying ETF declines in price the inverse ETF increases in price. These short ETF funds and put options represent a good trading opportunity as their underlying stock indexes remain in steady, consistent price declines. On balance, a short position in international ETFs currently represents a better trading opportunity than a long or short position in the volatile US market.

Also, ETFs represent a basket of stocks. A put option purchase on an ETF incurs less risk than a put option purchase on an individual stock which is susceptible to a sharp rally in price and a decrease in value for the put option due to stock specific news.