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Profit on the downtrend with Short ETFs!

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Risk Warning:

Please carefully consider the ETF's investment objectives, risks, charges and expenses before investing. ETFs may be complex in nature, investing involves risk including possible loss of principal. Before investing, PSPL recommends investors to read the Prospectus from the respective Issuer's website carefully. The respective website for all SGX listed ETF Issuer is available in our FAQ. PSPL does not provide any advice on the funds.

What is Shorting?

When someone shorts a stock, they usually borrow shares of a company from an investor or broker and sell those borrowed shares at the current market price.

The hope is that the stock price will fall so the short seller can repurchase the stock at a lower price and pay back the person they borrowed from, profiting from the difference. Conversely, the short seller will incur a loss if the price of the assets rises.

Other costs of shorting may include a fee for borrowing the assets and payment of any dividends paid on the borrowed assets. "Shorting" or "going short" can also refer to entering into derivatives or other contracts under which the investor profits from a fall in the value of an asset.

The convenience of short ETFs

Short ETFs are ETFs that are designed to perform the **inverse** (opposite) of whatever index or benchmark it is designed to track. Short ETFs enable investors to profit from declines in an underlying index conveniently. This is because, unlike actual short selling, investors do not need to go through the process of borrowing shares. Short ETFs use financial tools like options and derivatives to achieve their designated performance.

Investors who think an index will decline can simply purchase shares of the short ETF that tracks the index. The ETF shares will increase or decrease in value inversely with the index, that is to say, if the value of the underlying index goes down, then the value of the short ETF shares goes up, and vice versa.

Short ETFs are usually labeled with a "Short" or "Inverse" or "Bear" in its name. There are also Leveraged Short ETFs that allow investors to profit from a multiple of the decline in the underlying index.

For a list of Short ETFs, you can click the link below. Take note that many of these short ETFs are Leveraged as well and bear the same risks as investing in leveraged ETFs.

List of short ETFs:

http://internetfileserver.phillip.com.sg/poems/stocks/eTF/list_of_short_etfs.html

How to Hedge with Short ETFs?



Short ETFs can reduce an investor's risk by being used as a hedging tool. In finance, a **hedge** is a position established in one market in an attempt to offset exposure to price fluctuations in some opposite position with the goal of minimizing one's exposure to unwanted risk.

Professional Investors often hedge to reduce their exposure to market risks. Short ETFs can be a helpful hedging tool due to its relative convenience to buy into. Investors can use short ETFs to quickly gain access into an effective hedge.

Hedging Example:

For example, an Investor can be holding a large portfolio of stocks that are in the US financial market. When the investor suspects a temporary drop in value in his portfolio but wants to hold on to his current position, he can buy into a Financial Bear 3X ETF. This is a Leveraged Short ETF that tracks the US market's financial industry.

This way, when the market drops, the shares of the Leveraged Short ETF increases in value exponentially helping to reduce the short term paper loss of the investor's portfolio. When the market bounces back, the investor can then liquidate his position on the ETF. This way, the investor would have suffered significantly less loss than if he did not buy into the Leveraged Short ETF.

Other transactional costs are not factored into consideration in the above example.