

# How to Limit Risk, Diversify, and Achieve a Spectacular Upside

Andy Gordon

# BOOM & DOOM

PROTECTING & BUILDING YOUR FINANCIAL FUTURE



INVESTOR'S DAILY EDGE



MT. VERNON  
RESEARCH



**Andrew Gordon**

# The Wrong Way to Identify Up-and-Coming Sectors

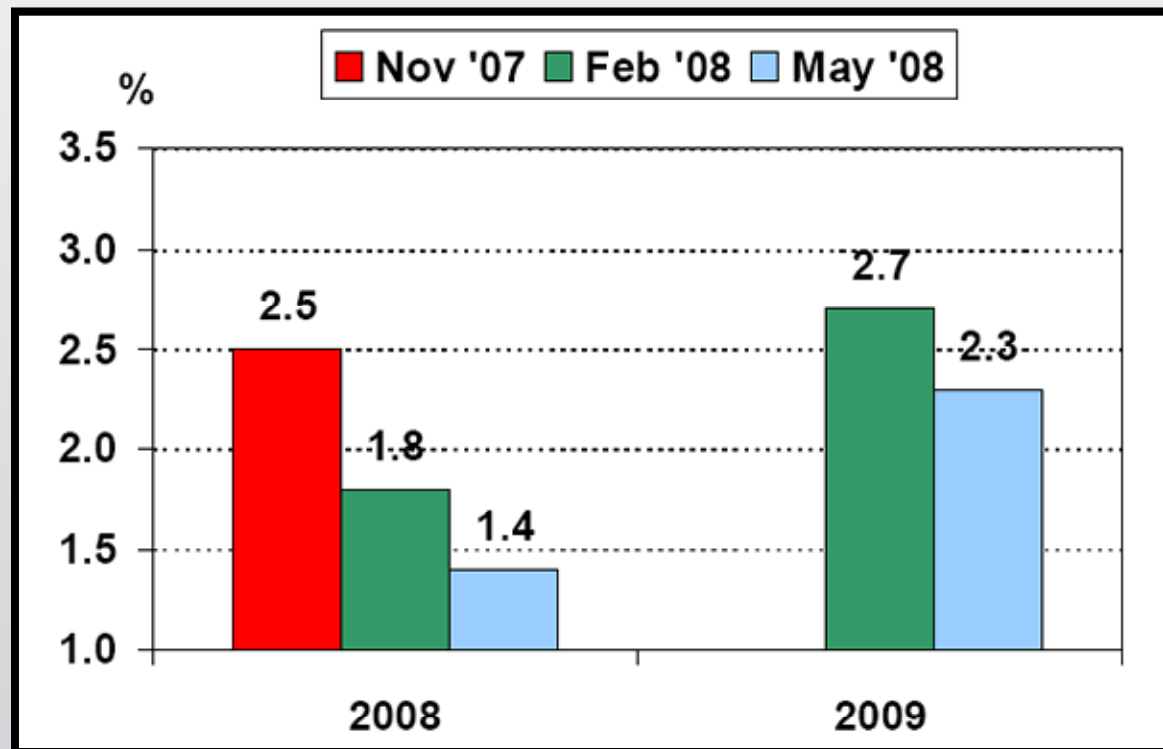
**“At the financial magazine I worked at, I wrote several columns that chronicled the latest investment trends, which tend to run in cycles. When mutual funds of a particular category or sector – be they large-cap growth, emerging markets or technology funds – made a precipitous ascent, that’s when we reporters would take notice and write about them. And at that point, they were usually poised for a steep downturn. There’s no telling how many readers had gotten in just in time for a free fall.”**

From “Confessions of a Boomer at 50”  
*Financial News – Yahoo Finance*

## The Wrong Way to Identify Other Major Trends

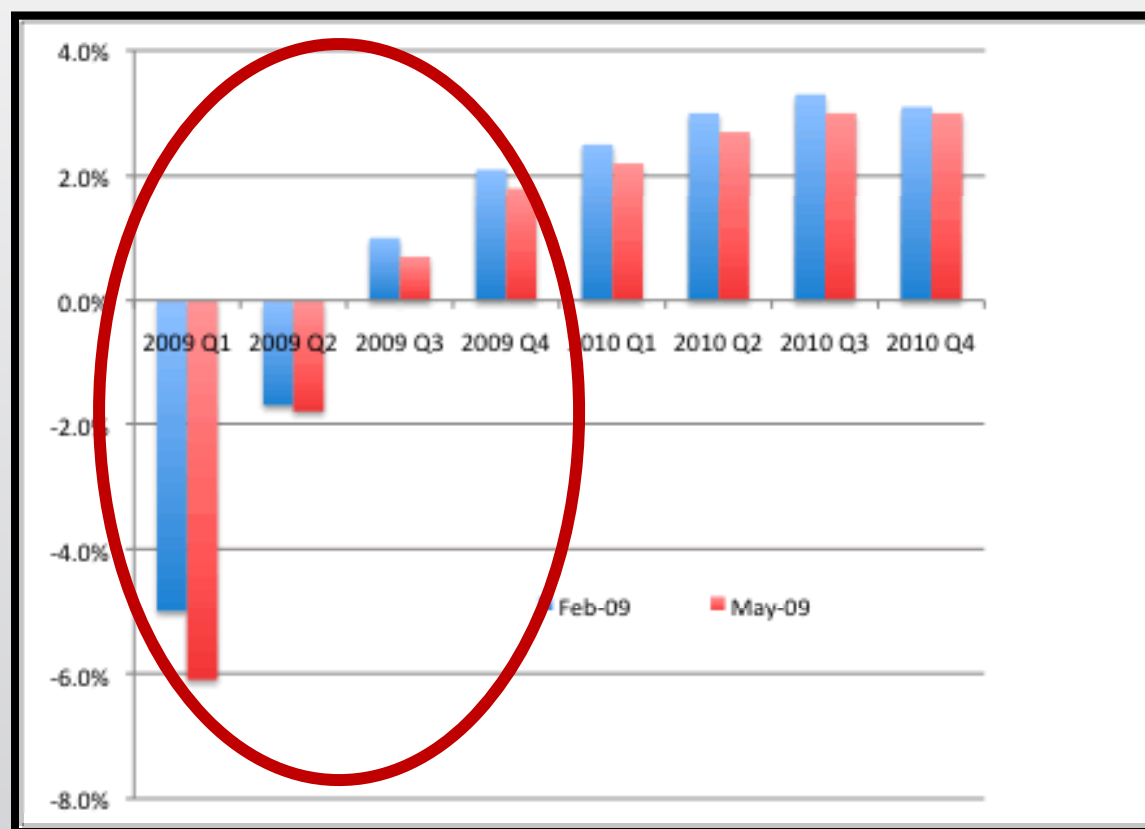
- Sub-prime issue was a hiccup
- Top in housing was completely missed
- Banking crisis was thought to be over before it began
- \$200 per barrel oil was right around the corner
- The market has supposedly bottomed 9 times (with every bear rally since October 2007).

# The Wrong Way to Predict Economic Growth



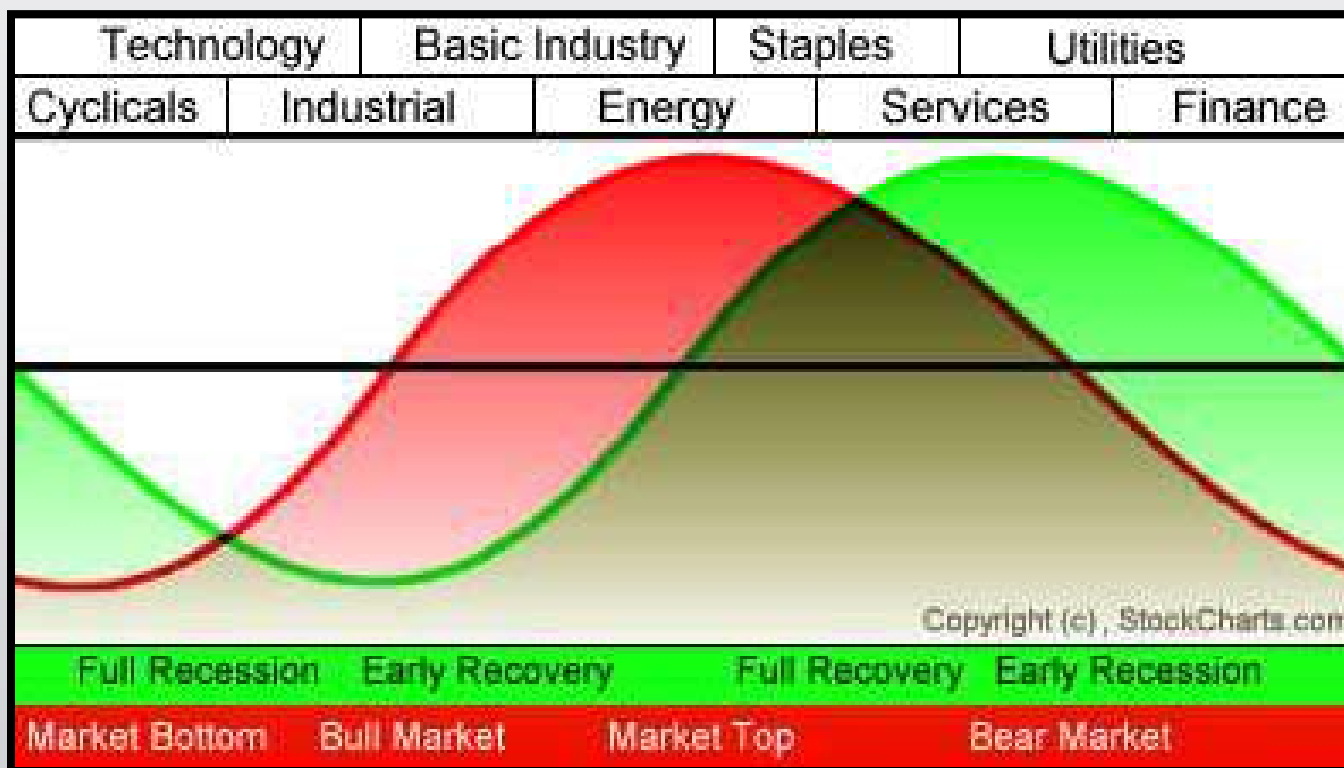
*GDP Forecast from the National Association for Business Economics*

## Why Should We Believe this?



*Latest Quarterly GDP Growth Forecast of the National Association for Business Economics*

# The Right Way to Identify Up-and-Coming Sectors



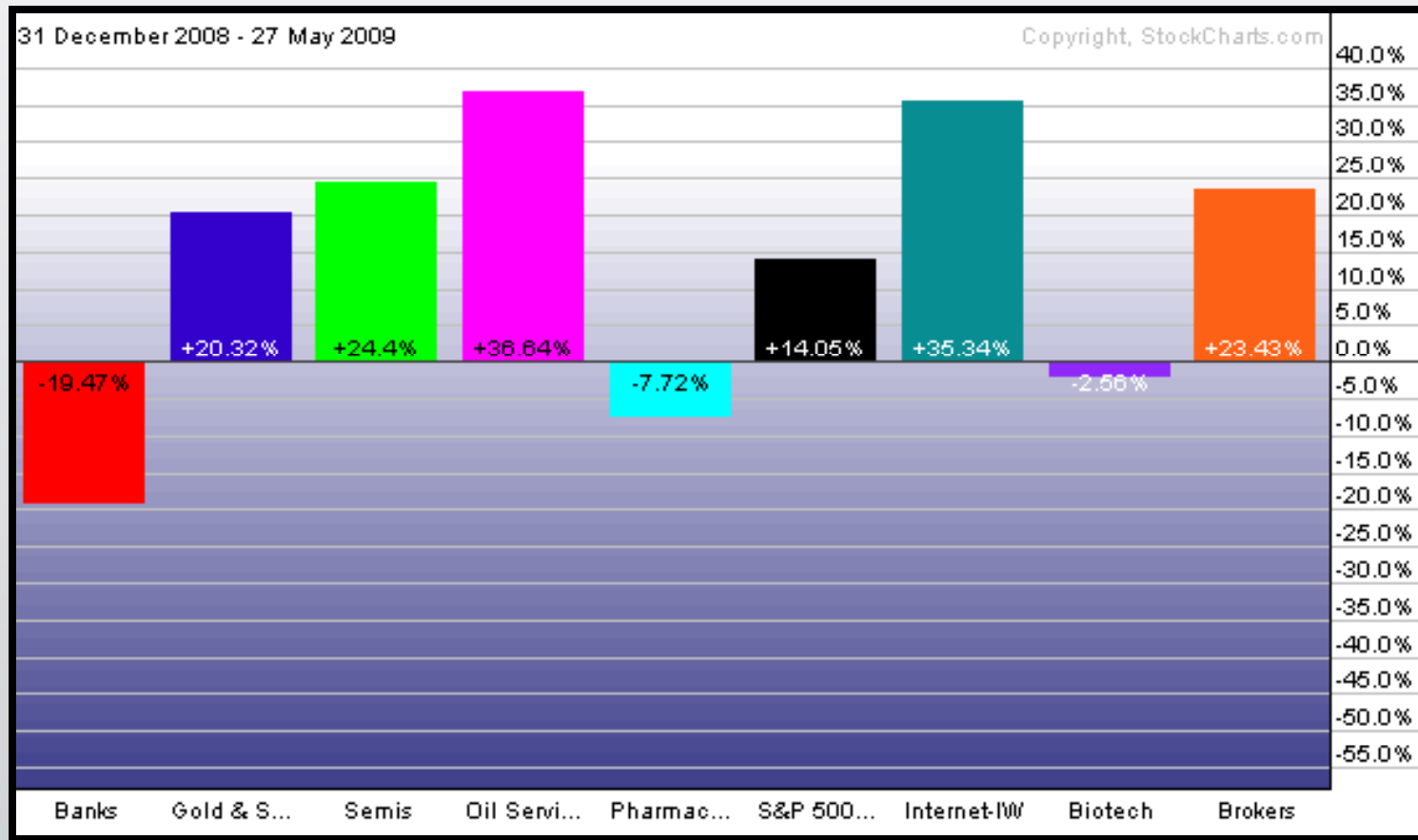


## Economic Cycles

Stage:	Full Recession	Early Recovery	Full Recovery	Early Recession
Consumer Expectations:	Reviving	Rising	Declining	Falling Sharply
Industrial Production:	Bottoming Out	Rising	Flat	Falling
Interest Rates:	Falling	Bottoming Out	Rising Rapidly (Fed)	Peaking
Yield Curve:	Normal	(Steep)	Flattening Out	Flat/Inverted



## Hot and Cold Sectors



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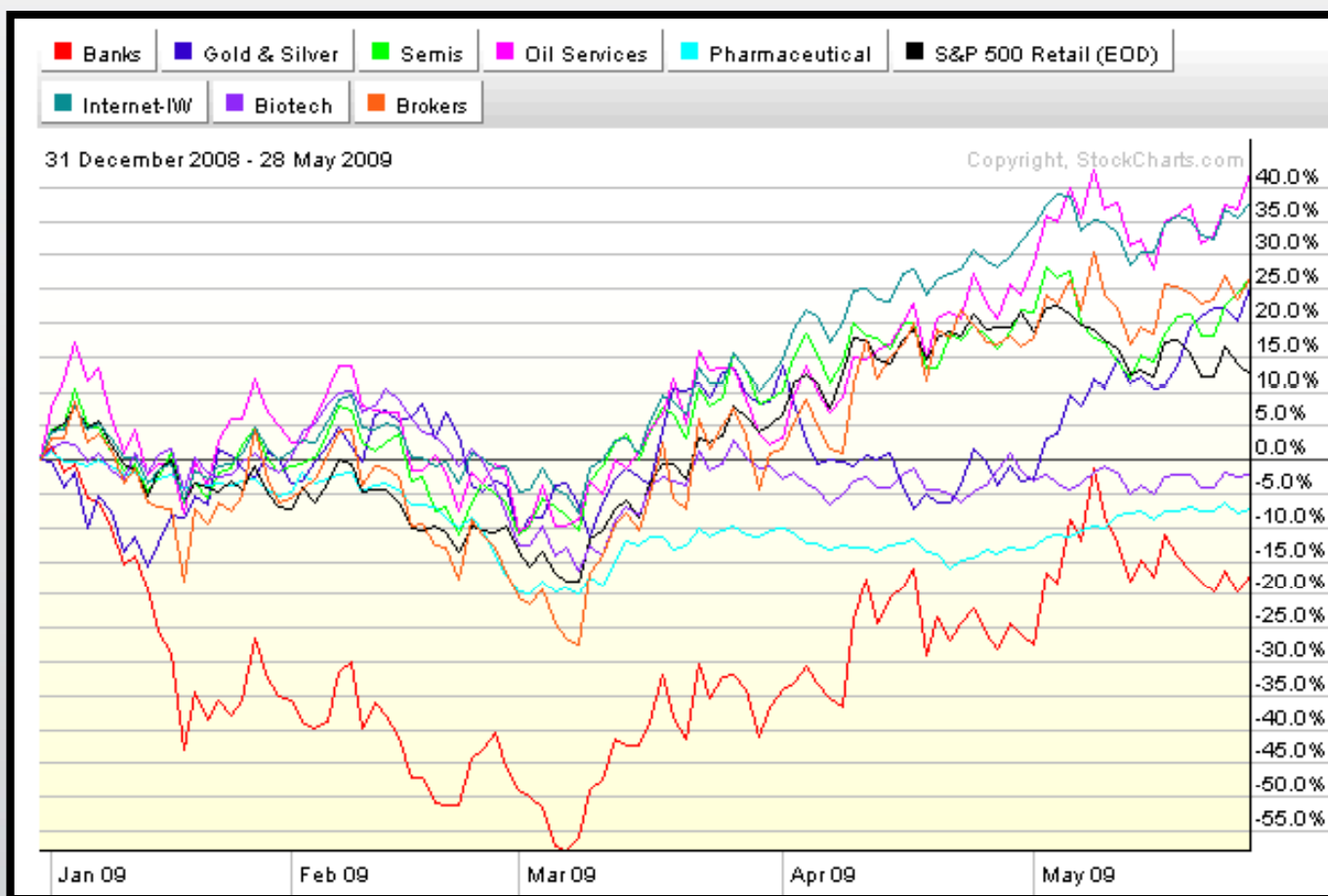


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## A More Dynamic Look



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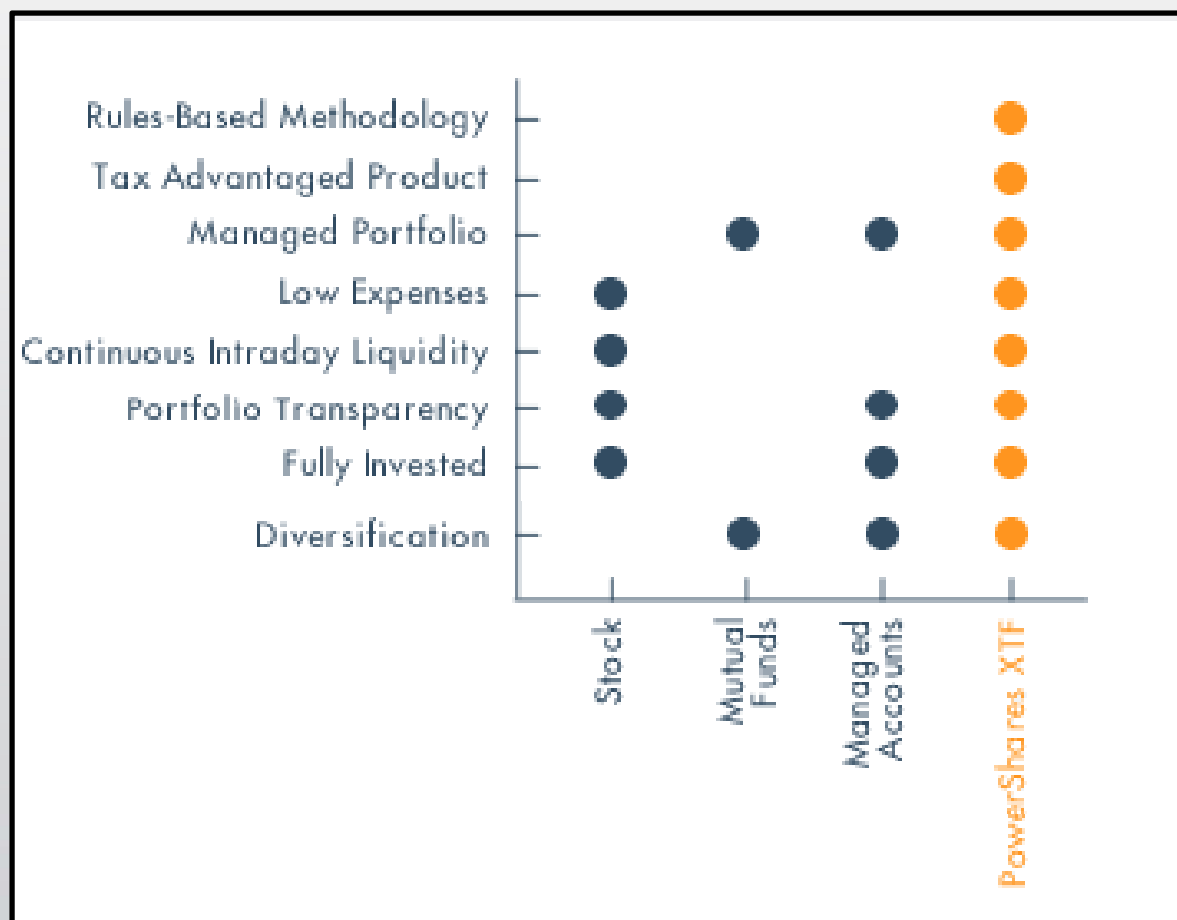
# How Can You Best Take Advantage of the Strongest Parts of the Market?

**ETFs Give You the Best Opportunity to Put  
ALL Your Money to Work in the Strongest  
Sectors and the Most Promising Countries  
and Regions of the World**

**Via...**

- 415 domestic equity ETFs
- 160 global/international equity ETFs
- 53 bond ETFs

## The Many Advantages of ETFs



# The Quiet Betrayal of Mutual Funds

Over the past 15 years, 90% of all mutual funds underperformed the S&P 500

## Mutual Funds Fail to Put ALL Your Money to Work

- They require high minimums
- They often charge high management and marketing fees
- They may tax you on your paper profits

## Look What Happens in the Long-Run

- When you put \$50,000 in an ETF with a 0.4% total expense ratio and mutual fund with a 1.5% expense ratio
- And both pay 10% a year for 10 years...

The total return on the mutual fund: \$113,049

The total return on the ETF: \$125,048

## ETFs Trade Like Stocks

- Use “stops” to protect profits or cut losses
- Use limit “buy” orders to set maximum price you’re willing to pay
- Buy options (Over 380 ETFs have options)

## ETFs Cover Practically Everything

- The major American indexes (QQQQ – Nasdaq, DIA – Dow Jones Industrial, SPY – S&P 500)
- U.S. government bonds (TLT, SHY)
- Domestic sectors like banking (XLF, KCE), energy (XLE, OIH), construction (PKB, XHB), real estate (RWR, VNQ), pharmaceuticals (PPH, XPH), semiconductors (IGW, PSI), metals and mining (XME)

## ETFs Cover Practically Everything

- Dividend companies (DVY, CVY, PFM, DTD, PID)
- Countries like Brazil (EWZ), Taiwan (EWT), India (EPI), Russia (RSX), China (FXI, GXE, PGJ), Singapore (EWS), Mexico (EWW), Switzerland (EWL), Malaysia (EWM), Sweden (EWD), and Chile (ECH)
- Regions like Latin America (ILF), Asia and the Pacific (VPL), Central Europe (GUR), Africa (AFK) including the Middle East (GAF), emerging countries (VWO), and the BRIC countries (EEB, BIK)

## ETFs Cover Practically Everything

- Global industries like energy (DTK, IXC), technology (DBT, IXN), Resources (GDX), and healthcare (IXJ)
- Foreign currencies like the euro (FXE)
- Commodities and precious metals like gold (GLD) and silver (SLV)

## ETFs Cover Unusual Niche Sectors

- Alternative Energy (PBW)
- Nuclear power (NLE)
- Nanotechnology (PXN)
- Private equity (PSP)
- Hedge funds (QAI)
- Inside Trading (NFO)

# You Can Double Your Bets Without Doubling Your Outlay

- You don't have to go short or buy options
- Nothing extra to do: You're just buying the ETF
- No exposure to unlimited risk (that you get with options and futures)
- Ideal for falling markets: For every \$100 the market/sector goes down, you make \$200
- Double-leveraged ETFs are available on the major U.S. indexes like the Nasdaq (QLD is 2x long and QID is 2x short)
- Double-leveraged short ETFs are available in the technology sector (REW), in emerging markets (EUM or EEV), and small companies (SDD)

## One of My Favorites Is... Market Vectors Nuclear Energy ETF (NLR)

