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# Using ETFs to Build a Winning Portfolio

**Billy Fisher**

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The abundance of different types of ETFs can be overwhelming to newcomers, but when utilized in a proper manner, they can provide a significant edge to investors.

Here are four key advantages for investors looking to utilize ETFs in an attempt to build a winning portfolio.

### Sector Bets

ETFs provide a way for individual investors to bet on a sector or industry and achieve a fair amount of success in the process.

For instance, an investor looking to add an agriculture play to his or her portfolio might be eyeing such as **Agrium**AGU, **Monsanto**MON, **Mosaic**MOS or **Potash**POT.

Rather than trying to choose between these alternatives, the investor might be better served in the long run by going with an ETF.

Chris Johnson, CEO and Market Strategist of Johnson Research Group, is bullish on the **PowerShares Agriculture Fund**DBA, which is a bet on the underlying commodities that have been fueling the boom for these companies. The ETF is comprised of wheat, corn, sugar and soybean futures. The fund is up 28.1% year to date, vs. a negative 6.0% return for the **S&P 500**.

"We use the ETF because it allows us to stay away from company-specific risk," Johnson said.

David Vomund also uses ETFs to achieve diversity. Vomund is the President and Founder of Vomund Investment Management, which specializes in ETFs. His firm recently used the **iShares Dow Jones Construction Fund**ITB as a means of gaining exposure to the homebuilders.

"I love the way the fund is rising in the face of a constant stream of bad news," he said. "Just look at the fund's performance on Tuesday -- while the news headlines highlighted the biggest drop in housing prices in 20 years, the fund is up over 6%."

The fund is up 17.5% year to date and has approximately 20 holdings, which include **D.R. Horton**HomeKBH, **Pulte Homes**PHM and **Toll Brothers**TOL.

### Flexibility

With the topsy-turvy conditions that the market has displayed thus far this year, the ability to be in and out of investments with relative ease has become increasingly important. The sound liquidity makes such flexibility possible.

"ETFs give you a fairly nimble way to move from sector to sector," Johnson said.

Vomund agrees. He also believes that they allow money managers to play to varying styles of investment.

"With ETFs, it's easy for a growth manager to become a value manager by simply buying ETFs that track the stocks," he said. "We rotate to the market segments performing best."

### **Access**

Another benefit of ETFs for individual investors is that they can provide better access to commodity and international plays.

"ETFs have made it easier for smaller investors to get into asset classes that they couldn't get into before," said Alan Rosenfield, managing director and founder of Harmony Asset Management.

He has used the **Market Vectors Gold Miners ETF** (GDX) to play the run-up in the price of gold. It is up 13.9% year to date and has **Barrick Gold** (ABX), **Goldcorp** (GG), **Newmont Mining** (NEM) and **Yamana** (YAM) among its top holdings.

The ease of access to commodities is another reason why Chris Johnson utilizes the PowerShares Fund to add exposure to agricultural commodities.

"Rather than trading directly in the commodities themselves, the ETFs are a fantastic way to play the market," Johnson said.

Johnson also likes gold. He uses the **StreetTRACKS Gold Trust** (GLD) as a means of investing in gold.

"We think it is a great play with the lowering of interest rates," he said.

### **Bearish Sentiment**

Not only do ETFs provide individual investors with better access to international and commodity plays, they also can serve as a good way to take action on a bearish sentiment. Instead of trying to pick out individual stocks to short when one is feeling bearish about the market, ETFs may prove to be a more deft way of taking a short position as they effectively allow investors the ability to short an entire index or sector.

Rosenfield has put this principle into practice.

"For the past year, we have been cautious about the stock markets due to the housing slump," he said.

Rosenfield has employed the use of bearish ETFs such as the **UltraShort S&P 500 ProShares** (USO), the **UltraShort Financial ProShares Fund** (SKF), the **UltraShort FTSE/Xinhua China 25 ProShares** (XCH) and the **UltraShort MSCI Emerging Markets ProShares Fund** (EEM) as a means to hedge against market risk.

Johnson had a similar read on the financial sector.

"We used the UltraShort Financial ProShares Fund to go short financials back in August," he said. out that position in December."

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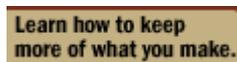
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