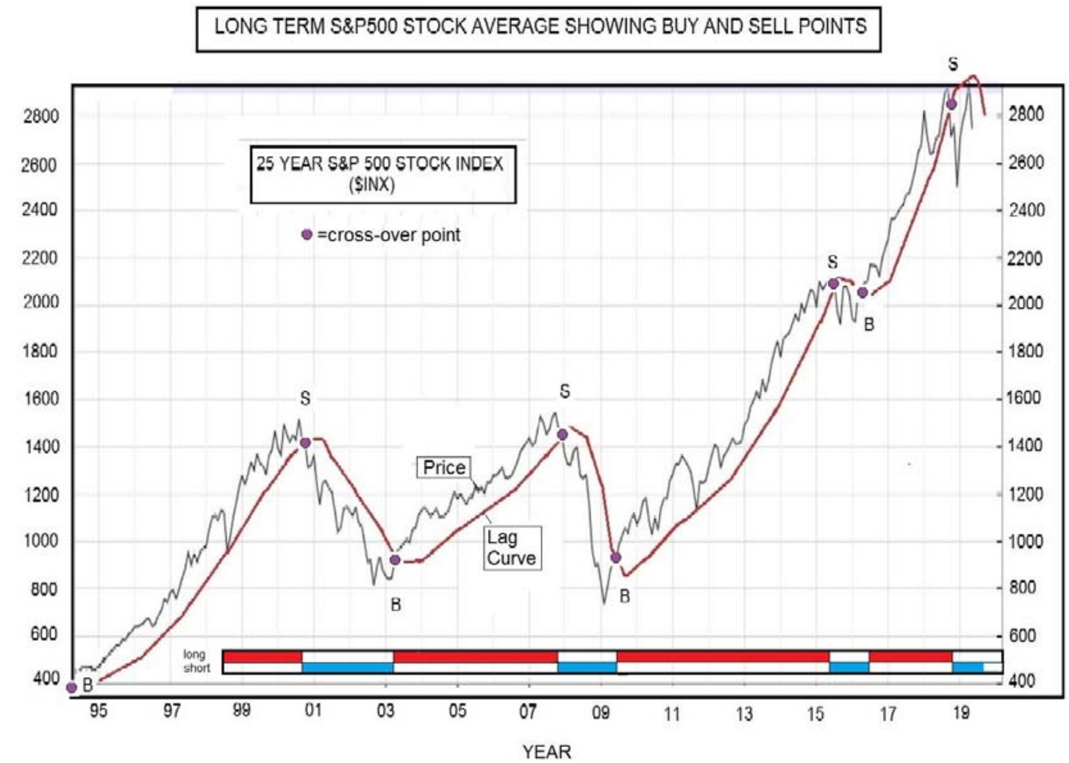
TRADING SPY AND OTHER RELATED EXCHANGE TRADES FUNDS

Staring some 15 years ago I chose to not buy any more individual stocks but rather decided to put all my stock and bond holdings into Exchange Traded Funds (ETFs). These funds , now extremely popular with the public, mimic the stock averages such as the S&P500 , have very low commissions and service charges (unlike mutual funds) plus are very liquid, being tradable like normal stocks. Such funds are typically made up of hundreds of individual stocks so that they are not subjected to rapid up and down price swings such as can occur for individual stocks. It is true that their returns reflect the underlying stock averages and thus cannot have spectacular gains such as possible with individual stocks. However, they make up for this shortcoming by being much safer and cheaper for individual investors to trade and own. With proper application such funds can return a net of 7 to 10 percent on ones capital per annum. This is quite a bit better then what the average stock market investor can show over any extended period of time. The investment strategy for such ETFs is to hold them long during bull markets and short their equivalents during bear markets. The type of market one is in is determined by looking at a long term price history of any broad stock average and compare it with a corresponding lag curve. It is the purpose of this article to show how one can successfully trade ETFs.

Let us begin with the first important rule of working with ETFs. It is to identify the type of market one finds oneself in at the moment. The simplest way to tell whether we are in a bull or bear phase of the market is to look at a long term record (25years) of a market average relative to a hand drawn lag curve. I have found over the years that the best market average to use for this purpose is the S&P500 Stock Index. Unlike the Dow Jones Industrial Average, it measures a much broader package of individual stocks and thus is most often a better indicator of what is happening in the market. A 25 year price history of this average looks as follows-



You will notice the buy (B) and sell (S) points. These points are determined by drawing in by eye a red lag curve(λ) approximately 15 percent above or below the price P(t) of the S&P500 Index at any given date. We find ourselves in a-

Bull Market when $P(t)>\lambda(t)$ and a **Bear Market when $P(t)<\lambda(t)$**

The cross-over point in going from a bear market to a bull market or visa versa occurs when P(t) first becomes equal to $\lambda(t)$. We designate these points by small purple circles. It is at these points that new ETF transactions should first be made. A reversal of a trend (which appears to be happening at the moment) from a bull to bear phase suggests one get out of long ETFs and purchase ETFs especially designed for bear markets. We will explain the details of this shorting procedure later on below.

The best ETFs to consider in bull markets are those which have large price-volume values. These can best be spotted from the following table-

PRICE-VOLUME ETF LEADERS FOR AUG.2ND,2019

	Symbol	Name	Last	Change	%Chg	Volume	Price Vol	Time
	SPY	S&P 500 SPDR	292.62	-2.22	-0.75%	116,749,700	34,163,297	08/02/19
	QQQ	Nasdaq QQQ Invesco ETF	187.35	-2.80	-1.47%	55,214,000	10,344,343	08/02/19
top 5	IWM	Russell 2000 Ishares ETF	152.58	-1.71	-1.11%	30,148,300	4,600,028	08/02/19
	EEM	Emerging Markets Ishares MSCI ETF	40.55	-0.40	-0.98%	92,796,200	3,762,886	08/02/19
	EFA	EAFE Ishares MSCI ETF	63.70	-0.57	-0.89%	37,777,900	2,406,452	08/02/19
	IVV	S&P 500 Ishares Core ETF	294.42	-2.10	-0.71%	7,481,000	2,202,556	08/02/19
	TLT	20+ Year Treas Bond Ishares ETF	136.51	+1.25	+0.92%	15,143,000	2,067,171	08/02/19
	HYG	High Yield Corp Bond Ishares Iboxx $ ETF	86.39	-0.13	-0.15%	23,559,500	2,035,305	08/02/19
	GLD	Gold SPDR	135.89	-0.52	-0.38%	13,753,200	1,868,922	08/02/19
next 10	LQD	Invst Grade Corp Bond Ishares Iboxx $ ETF	125.12	+0.13	+0.10%	14,629,400	1,830,431	08/02/19
	VXX	Ipath.B S&P 500 VIX Short-Term Futures ETN	25.66	+0.21	+0.83%	71,310,492	1,829,827	08/02/19
	XLF	S&P 500 Financials Sector SPDR	27.60	-0.01	-0.04%	66,036,362	1,822,604	08/02/19
	XLK	S&P 500 Info Tech Sector SPDR	79.05	-1.31	-1.63%	22,371,945	1,768,502	08/02/19
	DIA	Dow Industrials SPDR	264.81	-0.95	-0.36%	5,691,400	1,507,140	08/02/19
	XLV	S&P 500 Healthcare Sector SPDR	91.05	-0.21	-0.23%	15,956,789	1,452,866	08/02/19

We see here that the ETFs SPY and QQQ are the highest price-volume leaders and hence are the most liquid and thus ideal for trading. Daily swings in price of these two ETFs do not generally exceed one percent, I have been using them exclusively since 2016 during the markets bull phase . The SPY mimics almost exactly one-tenth of the S&P500 Index while the QQQ correlates with the Nasdaq100 Index.

When the market enters a bear phase one does not want to be long but rather make use of those ETFs designed to short either the SPY or QQQ ETFS. This is accomplished by making use of the following table I constructed several years ago-

S&P500 AND NASDAQ BASED ETFS AND THEIR LEVERAGED EQUIVALENTS

ETF Name	Price($/sh)	Volume(10^6/day	VxP	3 Month Gain
UPRO(3x)	157.64	1.86	293.21	+30.09%
SSO(2x)	118.40	1.5	177.6	+19..21%
SPY(1x)	277.92	90.8	25235.14	+9.14%
SH(-1x)	29.01	2.6	75.66	-8.26%
SDS(-2x)	37.91	3.9	147.85	-16.61%
SPXU(-3x)	10.08	8.7	87.70	-25.92%

ETF Name	Price($/sh)	Volume(10^6/day)	VxP	3 Month Gain
TQQQ(3x)	162.79	3.71	603.95	+30%
QLD(2x)	81.63	1.32	107.75	+23%
QQQ(1x)	164.49	37.7	6201.27	+11%
SQQQ(-3x)	18.25	5.4	98.55	-28%
QID(-2x)	12.0	3.9	46.8	-19.8
PSQ(-1x)	33.70	0.68	22.92	-10.25%

The gains in both the QQQ and SPY during the prior three months in this table clearly indicate that one has been in a bull market. To short SPY one should purchase the 3x leveraged SPXU , a short on SPY. It has a good VxP value and so should be fairly liquid. The 3x leveraged QQQ short is SQQQ. Although such shorting can be carried out, I myself tend to stay away from such shorts especially when they have high leverage. Rather, I most often choose to sit out a bear phase by parking my funds in the highest yielding certificates of deposit or short term bonds offered by my broker .

Finally let me make a few general observations concerning stock markets in the rest of the world. The above approach will work as well for them provided one's analysis is based on their local stock average. Most of the time these markets run pretty much in unison so that a major bull market in the US usually will correlate well with one in Japan (NKY225) and Germany (DAXI). However departures often exist requiring one to use the local stock index and lag curve to determine the type of market the country finds itself in. The most important rule to keep in mind is to *never be invested long when $P(t)<\lambda(t)$ and never be short when $P(t)>\lambda(t)$.* There will be plenty of opportunities in time when the conditions are ripe for taking a long(B) or short(S) position in an ETF.

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