

How to Leverage Your Trading Dollars with Ultra ETFs

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Would you like to trade an exchange traded fund (ETF) that can help you double up on your profits? Since I'm sure your answer is "*absolutely*," you'll want to investigate ProShares Ultra ETFs. (An ETF is a basket of stocks that focuses on a theme, such as market cap, sector, or country, and trades as a single stock.)

Although the ProShares family of funds may be best known for their hedging vehicles, the ProShares Short and UltraShort ETFs (when you *buy* these funds, you are short the market), they also offer the ProShares Ultras. The Ultras are leveraged ETFs that track their underlying index but at the same time, offer you more bang for your trading buck.

In this article, I'll discuss the Ultra ETFs and show you two strategies I use to trade with these powerful tools.

ABOUT THE ULTRA ETFS

Ultra ETFs benefit the trader by moving up (or down) two-percent for every one-percent the underlying index moves up (or down). That means if you're trading the ProShares Ultra Dow30 (symbol DDM), for every one-percent the Dow Jones Industrial index rises, the ProShares Ultra Dow30 (DDM) rises two-percent.

Of course, every rose comes with thorns. If you're on the wrong side of that trade, and the Dow crumbles, for every one-percent the Dow dives lower, the DDM falls two-percent.

Currently, you can choose from 23 Ultras contained in three categories: Ultra Market Cap, Ultra Style and Ultra Sector.

ULTRA MARKET CAP FUNDS

The six Ultra Market Cap funds include the Ultra QQQ (QLD), which tracks the NASDAQ 100 index. Also included is the Ultra Dow 30 (DDM) (mentioned above), as well as the Ultra S&P500 (SSO), the Ultra MidCap400 (MVV), Ultra SmalCap600 (SAA) and the Ultra Russell2000 (UWM).

ULTRA STYLE ETFS

The Ultra Style ETFs represent a selection of Russell indexes divided into six funds that target growth and value. At the moment, these funds trade on low average daily volume, making them dubious candidates for short-term trades. The most liquid of these style ETFs is the Ultra Russell2000 Growth (UKK), which now trades only about 20,000 shares average daily volume.

A note about volume - I usually don't trade stocks or ETFs with ADV of less than 300,000 shares. I know ETF sponsors say you can trade low-volume ETFs easily, but when I see a 5-cent to 20-cent spread between bid and ask prices, I go elsewhere.

ULTRA SECTOR ETFS

The third Ultra category, Ultra Sector ETFs, offers 11 funds that paint a broad brush stroke of U.S. sectors. Your choices range from Ultra Financials (UYG) to Ultra Oil & Gas (DIG) and from Ultra Health Care (RXL) to Ultra Technology (ROM), and more. At the moment, many of the ETFs in this category also trade below 300,000 shares per day. They are, however, gaining traders' attention and their ADVs are building.

The Ultra Sector ETF trading the most impressive ADV is the Ultra Financials (UYG), totaling more than 17-million shares per day. Compare that to volume traded in mid-February—when these shares traded at around 3-million shares per day. Of course, with the extreme volatility playing out in the financial stocks right now—the added attraction to these shares makes sense.

If you study the ProShares Ultra ETFs, you'll probably come up with a selection of different approaches that take advantage of the Ultras' power to leverage your trading dollars.

Three of my favorite strategies:

- 1) Trade Ultra MarketCap ETFs in the short (intraday) and long-term (position) for pure profits.
- 2) Use Ultra MarketCap ETFs as stock substitutes for laggards.
- 3) Use these same shares for intraday or overnight trades during times of high volatility (as we are currently experiencing!).

PURE PROFIT PLAY

First, I use Ultra Market Cap ETFs for boosting my gains with pure profit plays. For example, if the NASDAQ 100 is soaring higher in an intraday or daily uptrend, a dandy wallet-fattening tactic can be to buy shares of the Ultra QQQ (QLD) as a portion of trading funds you would normally dedicate to the traditional NASDAQ 100 tracking stock, the PowerShares QQQ (QQQQ). Of course, I'm assuming you're entering with an appropriate long set-up and establish protective stops soon after you enter.

Below is a chart of the QLD, market with arrows that show a possible entry on the close of April 3 at 84.65 per share. (A nice 20/50-day MA crossover confirms the entry), and an exit at the close of July 19, at 105.46, per share. If you bought 200 shares when you entered, and sold those same shares at the July 19 close, your profits would have totaled \$4,162, minus commissions.



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To make a comparison, imagine that within the identical time frame, you bought 400 shares of the QQQ (QQQQ) (not shown), the traditional NASDAQ 100 tracking stock. Since the QLD costs approximately twice as much as the Q's, I doubled the share size of the Q's to keep the

evaluation relatively close on a dollar basis. You'd exit with a profit of \$2,268, minus commission, which is a little more than half of the QLD gains.

While I know that most of us don't enter and exit trades with perfect entries and exits such as the one shown, the example does make the case for adding a few shares of the Ultra QQQ (QLD) s to your trading portfolio when the NASDAQ 100 soars in a strong uptrend. Of course, you'll also want to consider the Ultra Dow30 (DDM) when the Dow Jones Industrial Average cavorts higher, and the Ultra S&P500 (SSO), and the Ultra Russell2000 (UWM) when those indexes look poised to fly.

USING ULTRA ETFs AS A STOCK SUBSTITUTE

Let's face it. As traders, all of us at one time or another has spotted a sector roaring higher—and then bought the only stock in that sector that decided to sleep through the entire party. Or, we decide technology stocks are a great place to be, and we scoop of shares of Apple, Inc. (AAPL), Research in Motion, Ltd. (RIMM) and Bidu.com, Inc. (BIDU). That might be the day that an analyst decides that BIDU is too pricey . . . and downgrades it . . . thus sending shares of the Chinese Internet stock lower.

An easy solution—especially if you don't feel like researching additional tech stocks--is to fire BIDU and replace it with shares of the tech-heavy Ultra QQQ (QLD). As long as the NASDAQ 100 index is moving higher, the QLD should be able to keep up with—or even outpace—your other tech holdings.

In the chart below, you see a 5-minute intraday chart of the QLD and BIDU. The QLD is plotted showing candlesticks; BIDU is represented by a line (closing price of each bar). The volume shown belongs to the QLD.) Notice how, on a day when the QLD drifted higher until early afternoon, BIDU slid south. Midday, both the QLD and BIDU fell, executing a nice head fake (and no doubt stopping out a lot of traders). In the early afternoon, though, the QLD shot higher, tracking the NASDAQ 100's climb. Poor BIDU could barely climb off of its lows.



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The strategy on this day--especially in the afternoon session-- was clear: keep BIDU to one side, and let the QLD take its place.

USING ULTRA ETFs FOR SHORT-TERM PLAYS

Currently, the market is taking traders on the ultimate roller coaster ride. In this type of uncertain market environment, I limit my trades to intraday time frames. Or, if I do hold an overnight position, I hold it for one night, only.

Again, Ultra MarketCap ETFs provide a great vehicle for popping in and out of volatile markets. As long as you're on the right side of the trade, Ultras will hand you a double bang for your buck.

On March 11th, the S&P 500 Index gapped open to the upside, then drifted down all morning, trying to fill the price gap. At about 1:30 p.m., however, the bulls took charge and the S&P flew steadily higher, all the way to the closing bell.

The 5-minute chart shown below shows the price action of the Ultra S&P500 (SSO). Although I had no intention of holding shares of this, or any other stock/ETF overnight in this market environment, it was a clear shot to buy shares of the SSO when the S&P shot higher, breaking above its downward drift. When the SSO's 10-period EMA (exponential moving average) crossed above its 20 EMA and volume increased, I took the buy signal (green arrow) and bought shares of the SSO at 64.



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The rest of the ride was easy, as the SSO naturally moved higher with the S&P 500 for the remainder of the afternoon. Just before the bell, we exited at 66.50. It was a dandy, stress-free trade, and we took home 2.50 per share profit.

Please note: when trading any of the Ultra MarketCap ETFs, be sure to watch the *actual index* – not the ETF—to make entry and exit decisions. Especially because of their leveraged status (which creates wide daily trading ranges), these ETFs can shoot up and down *very fast*. So, be sure to use the correlating index, such as the Dow Jones Industrial Average, S&P 500 index, NASDAQ 100 index, and so forth, as leading indicators for the ETFs. For day trading purposes, you may want to use the E-mini futures to act as your leading indicator.

Novices: please paper trade the Ultras until you become comfortable with their sometimes volatile price action.

As you can see, when used wisely and with caution, ProShares Ultra ETFs are a powerful trading tool that can help boost your trading profits in both the short and long term.

In my next installment, we'll continue our discussion of a different family of exchange traded funds. Until then, keep green on your screen, and here's to your good wealth!

Toni Turner is a trader and investor with seventeen years of experience in the financial markets. She is the best-selling author of *A Beginner's Guide to Day Trading Online, 2nd Edition*, *A Beginner's Guide to Short Term Trading* and *Short-Term Trading in the New Stock Market*.

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Toni has appeared on NBC, MSNBC, CNN, and CNBC. She has been interviewed on dozens of radio programs and featured in periodicals such as *Fortune magazine*, *Stocks and Commodities*, *SFO*, *MarketWatch*, *Fidelity Active Trader*, and *Bloomberg Personal Finance*.

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