

PowerShares ETFs Make Great Trading and Investing Tools

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Exchange traded funds (ETFs) have rapidly become one of the most popular trading and investing tools on Wall Street.

These pools of stocks (or futures contracts, commodities, bonds or currencies) trade as a single stock on our major exchanges and provide a host of opportunities to traders and investors for pure profit, diversification and hedging plays.

Each ETF is based on an index that centers on a specific theme or targeted market. Those themes include market cap (major market indexes), sectors, country / global, bonds, specialty, and currencies. That means, for example, that by executing a "buy" order for a single ETF, you can own shares representing the S&P 500 index, the energy sector, India, all of Latin America, a corporate bond portfolio, water resources, or perhaps the Japanese yen.

Invesco PowerShares Offers a Wide Array of Funds

Each ETF is sponsored by a fund "family." In this article, we're going to explore the ETF family known as Invesco PowerShares.

Currently, Invesco PowerShares offers 110 ETFs. These funds range from the mega-popular PowerShares QQQ (symbol QQQQ) representing the Nasdaq 100 index, to 42 sector shares that cut a broad swath through U.S. industries. Choices include a wide range of ETFs, such as the Dynamic Financials Sector Portfolio (PFI), Dynamic Healthcare Services Portfolio (PTJ), Dynamic Food & Beverage Portfolio (PBJ) and the Dynamic Telecom & Wireless Portfolio (PTE).

PowerShares also offers fixed income funds, such as High Yield Corporate Bond Portfolio (PHB) and the Insured National Municipal Bond Portfolio (PZA). Or, you can get more adventuresome with PowerShares' International ETFs, like the relatively new India Portfolio (PIN), and the Golden Dragon Halter USX China Portfolio (PGJ).

You can wander into PowerShares' Broad Market funds with the Dynamic Market Portfolio (PWC), or into commodity and currency funds with the DB Oil Fund (DBO) or the DB US Dollar Bullish Fund (UUP). And yes, for the bears out there, there's the DB US Dollar Bearish fund (UDN).

Finally, Invesco PowerShares recently launched the ETF arena's first "actively managed" funds. Most ETFs are based on passive index funds. However, PowerShares' new "Actively Managed" ETFs will be run by managers who actively invest fund assets in stocks and bonds. Go to the PowerShares website to get more information about these funds.

Three Popular PowerShares ETFs for Traders

"Volume" and "volatility." Stocks and ETFs that trade with those two components will make any trader worth his or her mouse start to salivate.

It's important to know that while many ETFs on the market today are fine for investing, low average daily volume make these funds less than attractive for trading.

I personally make it a rule not to day trade a stock or ETF that trades less than 250,000 shares per day. The bid/ask spread on these vehicles can widen from \$0.05 to \$0.20, \$0.30 or more. Entering a limit order splitting the bid and ask on thinly traded ETFs (less than 250k per day) aren't always accepted. After all, during trading hours, market makers and specialists (market middlemen) aren't known for their charitable deeds. Trading high-volume ETFs ensures you can enter and exit your trades without too much slippage.

Three PowerShares funds that have provided explosive opportunities (both long and short) for short-term trading in recent months are the PowerShares DB Agriculture Fund (DBA), the PowerShares DB Commodity Index Fund (DBC) and the PowerShares BLDRS Emerging MKTS 50 ADR Index Fund (ADRE).

PowerShares DB Agriculture Fund (DBA)

From September of last year until mid-March 2008, the PowerShares DB Agriculture Fund (DBA) has won "most trendy" title among institutions and individual market players. This ETF is composed of futures contracts on agricultural commodities stars corn, wheat, soybeans and sugar.

Average daily trading volume for the DBA has surged from 115,300 shares in September 2007 to the current average of 3-million shares per day.

As well, as you can see on the daily chart below, the DBA nearly doubled in price - from \$27 to \$43 per share - during that timeframe.

PowerShares DB Agriculture Fund (DBA) - Daily Chart



Of course, high volatility and high volume don't always mean a stock or ETF will stay in moon-shot mode. Note the temperamental sideways move the DBA made during the first two weeks in March. The bars or candles that traded with wide average daily ranges showed confusion between bulls and bears. And of course, the piper must always be paid. In mid-March, the DBA began its fall from its high over \$43 per share to its current price of about \$37.

PowerShares DB Commodity Index Fund (DBC)

Another PowerShares ETF that's gained a lot of attention from traders is the PowerShares DB Commodity Index Fund (DBC). The DBC consists of futures contracts of six of the most highly traded commodities in the world: crude oil, heating oil, gold, aluminum, corn and wheat.

As you can see by the chart below, the DBC tells the same volume story as the DBA - although not quite so dramatically. In September 2007, the DBC's average daily volume was about 300,000 shares. In March 2008, its volume ran up to more than 3 million shares a day. Now it trades a respectable 900,000 shares per day.

Caption: PowerShares Commodity Index Fund (DBC) - Daily Chart



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Like the DBA (and also containing corn and wheat) the DBC stepped nicely higher from September until mid-March. Then, as commodities have a way of doing - especially crude oil - the then overbought DBC tumbled into a cliff-fall from its highs and fell several points in panic selling before recovering.

The moral of this story: protective stops on high-vaulting ETFs protect not only profits, but stave off heartburn.

PowerShares BLDRS Emerging Markets 50 ADR Index Fund (ADRE)

Finally, emerging markets funds have proved to be an international favorite among traders - especially during 2007. As our U.S. market roared to a top in October, emerging markets that sold products to us were benefiting nicely. When our markets rolled to the downside, however, it affected these countries, as well.

You can see those moves on the PowerShares BLDRS Emerging Markets 50 ADR Index Fund (ADRE) chart, below.

Caption: PowerShares BLDRS Emerging Markets 50 ADR Index Fund (ADRE)



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This fund is based on a capitalization-weighted index that tracks 50 emerging market-based depository receipts. The fund is rebalanced quarterly and presently includes ADRs from countries such as China, Israel, Taiwan and Brazil.

When you study this chart, you can see that the ADRE certainly reflected the U.S. market top last fall, as well as our January and March lows of this year. Although the chart pattern does not match our benchmark index, the S&P 500, exactly, the ADRE high on October 31 did match our Nasdaq 100 high for the year, and the pattern highs and lows clearly show how emerging markets are at least somewhat affected by U.S. economic conditions.

In conclusion, Invesco PowerShares ETFs offer a wide range of funds with which to speculate, diversify and hedge your portfolio. As you look over opportunities within the fund family and in others, you'll see why exchange-traded funds have risen so rapidly become one of the most popular trading and investing tools on Wall Street.

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*. 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.

Toni is the President of TrendStar Group, Inc. For more information about her live and online seminars, as well as additional educational products, please go to www.ToniTurner.com