

Excerpt from ETF Guide, November 25, 2008

<http://www.etfguide.com/research/97/8/Did-The-Dow-Bottom-At-7,500?/>

Did The Dow Bottom At 7,500?

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The major market indexes hit multi-year lows last week. Is this just another stop on the way to lower lows or did the Dow hit rock-bottom at 7,500?

Poker players, business negotiators and sales people know and appreciate the value of a good bluff. Just as it is much more fun to win (opposed to being defeated) it is much more fun to dish out a successful bluff than falling for a bluff.

The stock market has been bluffing investors for months now. Losing hurts, but it might be consolation for novice investors to know that mutual fund managers (supposedly the “pros”) fell for the market’s bluff and held a record low of only 3.5% of cash in July 2007. Fund managers were invested to the max right before the market topped and crashed. Last Thursday (11-20-08), the Dow Jones (AMEX: [DIA](#)) reached an intraday low of 7,475 before rallying 13% in two days. This is the Dow’s third short term move in excess of 10% since the middle of October. Is this rally the real thing or is it just another bluff?

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A bottom spotting formula

Spotting a market bottom is not a matter of consulting any one, single indicator. Much more it is a combination of indicators that build a formula or composite sign. Investor sentiment was extremely bearish which indicates an exhaustion of the prevailing down trend. Down-side breadth (as noted above) and volume were significantly higher than usual. There was no divergence between indexes, ALL indexes closed at new multi-year lows. A bird that walks like a duck and swims like a duck and quacks like a duck is probably a duck. Dow 7,500 probably marks the bottom of this leg down.

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ETF profit strategies

Along with the next leg up come opportunities to make money. At the very least, investors will enjoy some relief from last year’s carnage. Considering how much money has been lost, it would make sense to milk this rally for what’s it worth.

In our last issue of the [ETF Profit Strategy Newsletter](#) ... we gave the following advice: “Once the Dow breaks beneath 7,500, it’s time to lighten up on short ETFs and add high beta ETFs or leveraged ETFs, such as the High beta sectors, such as alternative or clean energy, will likely enjoy a bigger bounce than the overall markets. The PowerShares WilderHill Clean Energy ETF (NYSEarca: [PBW](#)) and ... offer broad sector exposure.” Short ETFs like ... have dropped between 30% to 60% in two days while PBW and GEX jumped as much as 20.76% and 31.26% from its low. As a point of reference, the S&P bounced 14.65%. In poker, the best response to a good bluff is an even better

hand of cards. When investing, the best response to the market's bluff is a portfolio of the right ETFs at the right time.