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ETFs for Sequestration Speculation

The apparent failure of the Congressional Joint Select Committee on Deficit Reduction, better known as the Super Committee, means that $1.2 trillion in spending cuts over the next decade will automatically be triggered. These cuts, evenly distributed between defense and discretionary spending, were intended to scare Democrats and Republicans into forming a consensus. Unfortunately, this proved not to be the case, and, short of congressional action, those automatic cuts, also known as sequestration, will go into effect in January of 2013.

Once investors manage to shake off the utter shock over congress failing to find a compromise, they might begin to consider which sectors could be most affected by sequestration and how they might be able to speculate on them. As is often the case, investors interested in making bets about shifts that ripple across an entire sector can be best served by ETFs, which will allow them to make bets on broader market movements that might be triggered by the spending cuts.

Trading Defense Spending Cuts

With $600 billion in spending cuts coming from the Pentagon over the next decade, the Defense Department is looking at having to cut nearly 10 percent of the annual $550 billion budget. Defense Secretary Leon Panetta has already laid out an outline for what those painful cuts might look like, and it appears that the American military is on the verge of major changes. There are three ETFs linked to the defense industry, which will undoubtedly be affected by such cuts. ….

Another industry that could be affected by the automatic cuts in discretionary funding is agriculture. Farm subsidies have been under fire of late, and that could make them a target for spending cuts. Investors looking to speculate on the future of American agriculture subsidies might find the tool to do so in ETFs linked to agricultural commodities futures, like the **…** , which is linked to the …. Agriculture Index …, or the … , which moves based on corn futures. Corn is by far the largest subsidized crop by the U.S. government.

Finally, the Department of Energy's budget falls under discretionary spending, so government loans and financial support to the budding clean energy industry could be targeted. An investor looking to bet on whether or not this is the case might utilize the **PowerShares WilderHill Clean Energy Portfolio (PBW)**, the … , or ….

The Government of a Thousand Cuts

While congressional efforts are already underway to reverse the automatic cuts, it doesn't appear at the moment that either party has the political clout to push through legislation that would stop them. For an investor looking to take advantage of this, ETFs might be the best avenue for speculating on the broader shifts in the economy caused by sequestration.