Making Money Now: Shorts Never Looked So Good

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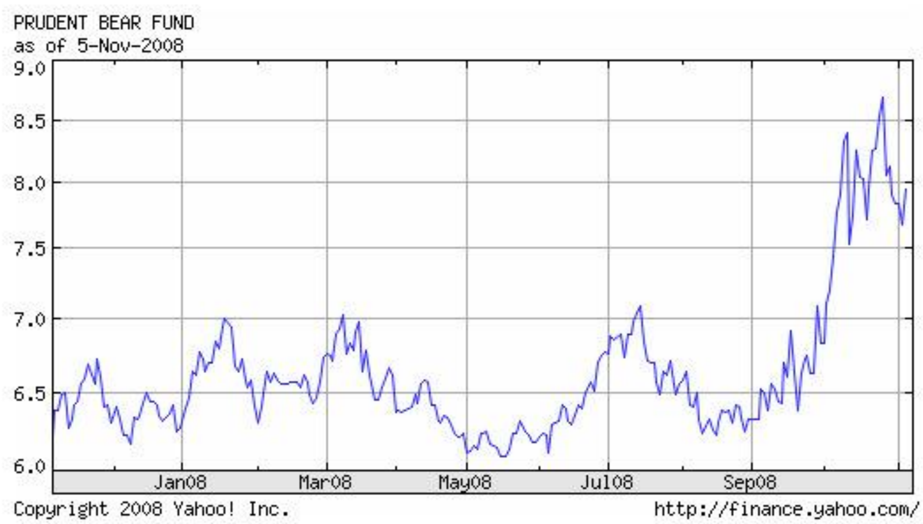
We may be in a whole new world. Shorting stock has been a dirty word. Yet, that tactic is gaining new respect. That is because the only people that are making money in this market have largely been shorting it.

Short selling is the opposite of owning a stock outright. It is the process of selling a stock that is not owned, betting it will go down in price. The short seller borrows or rents the stock shares from her/his broker. Then, the stock can be purchased when the price goes down and the difference between the short sale cost and the lower purchase price is the return. However, there is a risk. If the stock goes up, not down, the short seller loses money. This can be limited by closing a position quickly after a stock begins to rise.

There are ways to short funds rather than individual stocks. For example, ProFunds UltraBear Investor class (URPIX—in blue below) double shorts the S&P index. For every point the S&P goes down, URPIX is meant to go up two. In order to do this, the fund employs leverage. I don't have to tell you that it is up dramatically this year compared to the S&P index (GSPC—in red below. Its total expense ratio is 1.42% and minimal investment is $5,000.

I don't include a benchmark for BEARX because I don't feel I can choose an appropriate one. Nevertheless, the DOW, S&P plus the NASDAQ are down double digits this year, and a relatively safe return of 9% sounds pretty good. The expense ratio is 1.73% and there is a 12b-1 fee of 0.25%. The minimum investment is $2,000. BEARX seeks capital appreciation rather than just shorting the market like Proshares. Additionally, it does not deal in larger capitalization shares like Profunds. Instead, it focuses on small growth stocks (Morningstar style). These are two reasons why Profunds and BEARX can't be compared or even uttered in the same breath.



BEARX is a mutual fund that could be used by anyone, anytime, to attempt to outperform the market. If the market is going up, it might not be needed. In a down market, however, it might be worth a second look.

The upshot of all of this is that shorting is no longer a dirty word. It is almost a necessary position for some portfolio funds in this volatile down market. This is because the problems in our economy are systemic and won't go away any time soon. Therefore, reevaluating previous market approaches will serve most investors well. If a portfolio isn't working in its conventional form, perhaps other possibilities should be entertained. One such alternative is shorting.