Market Sparkle: An Opportunity?

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Keep this article. It can help you make money in the future. This is because a stock market that surges on hope less than fundamentals generally doesn't stay celestial very long. When this happens, taking some profits can make sense.

As an example, look at Vanguard Small Cap Growth exchange traded fund (VBK) the last six months when the recent major run up occurred. In March, 2009, it was 33 and in Late August it was 55. The difference, twenty two, divided by thirty three equals a 67% gain in six months.

In order to personally implement this method, go to Yahoo Finance. Analyze each stock, exchange traded fund, and mutual fund in your portfolio to assess which made the greatest gains in the recent market run-up. Look especially in your retirement accounts where selling at a profit will not mean immediate taxes. In one of my own such accounts over the last six months, Vanguard FTSE All-World ex-US exchange traded fund (VEU) was up 60%. Others were still high performers, but not as impressive, for example, Vanguard Value exchange traded funds (VTV) gained 50% and Vanguard Large Cap ETF (VV) 45%. I chose to lighten up on the funds that had made the most profit quickly.

Using this approach with a small amount of one's portfolio, especially the tax exempt, can provide an opportunity without taking substantial risk. The downside is missing out on future gains should the market continue to climb.

A caveat is warranted here. Statistically any kind of market timing doesn't pay off over extended time periods. Still, there are certain segments within the longer time frame when it is profitable. This is what we are trying to capture here.