



Letter to the Editor

September 20, 2011

The following is in response to Dennis Gibb's article, [The Risks of Exchange-Traded Products](#), which appeared last week:

Dear Editor,

This really isn't to critique Mr. Gibb's article – which was very good – but to add a few things to the general conversation about leveraged and inverse exchange-traded products.

Those ETFs are really not that new in terms of the strategies that they employ; they are “cousins,” if you will, of the leveraged and inverse mutual funds that have been around since the mid- to late 1990s.

The fact of the matter is that these products are best used to capitalize on relatively short-term trends in the market, such as the recent bear market in the financial sector, a gold rush, or the March 2009 bottom-to-current market top.

This is how I use these funds and the advisor community as a whole focuses too much on the perils of attempting to use these funds in the traditional “buy-and-hold” strategy, when really they are suited for short-term opportunistic trades. Even if an investor were to hold them for long periods, a simple 5-10% trailing stop-loss order would be sufficient to handle downside risk.

This is what we do at my firm; I'm sure other advisors do the same.

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