Three Top Ways to Protect Against Further Downside

Investors are divided on what to do.

Over the last few weeks, the Dow Jones plummeted from 29,500 to 25,722. The NASDAQ fell from 9,800 to 8,640. The S&P 500 dropped from 3,400 to $2,985.

Many argue the bottom may be in.

Billionaire Leon Cooperman just used the sell-off to buy stocks like United Airlines, betting the virus story will die by June 2020. “Look at United Airlines: They came out with their commentary the stock is trading at six times what they expect to earn this year. They took out guidance because they can’t give you guidance until they know what happens with the virus.”

And, as global banks spark hope of interest rate cuts to boost the global economy, analysts at Bernstein say it’s “not time for investors to sit on the fence.”

“The impact that the virus outbreak will have on growth is, at the moment, unknown. But after such an abrupt move, as we saw at the end of last week from a sell-side strategy perspective, one cannot sit on the fence,” the analysts said, as quoted by MarketWatch. “Do we believe our tactical models or not? We do, and they are suggesting that investor sentiment has simply moved too far... So, we are advocating tactically increasing equity exposure.”

Others aren’t so sure.
In fact, analysts at JP Morgan, Citi, and Goldman Sachs think there hasn’t been enough pain in the market yet.

“While ‘buy the dip’ has been a successful strategy since the Global Financial Crisis, with equity drawdowns often reversing quickly, it might be more risky this time,” Christian Mueller-Glissmann, equity strategist at Goldman Sachs, said as quoted by CNBC. “With global growth still weak, the shock from the coronavirus outbreak lingering and less scope for monetary and fiscal easing, the risk of a more prolonged drawdown remains.”

Mohamed El-Erian still advises that investors stay on the sidelines, as well.

“I stress, this is different,” he said. Just because buying market dips has worked in the past does not mean it’s going to work this time, he said, as quoted by CNBC. “I would continue to resist, as hard as it is, to simply buy the dip.”

Unfortunately, buying on the excessive fear now could cost investors.

There is still a big concern over bigger pullbacks, as the number of coronavirus cases and deaths continue to grow. All hopes for upside were dashed after a second coronavirus death was reported in the U.S. in Washington State.

At the moment, the number of confirmed cases in the state stands at 13 with those two unfortunate deaths. We’re also seeing cases in California and Oregon, raising fears of person to person transmission of the virus. A case popped up in New York City, as well.

More news like that could send the markets lower.

The best thing to do is continue to hedge for further downside. The best way to do that is by trading volatility ETFs and ETNs.

Volatility Trade No. 1 – ProShares Ultra VIX Short-Term Futures ETF (UVXY)

The Pro Shares Ultra VIX Short-Term Futures ETF was designed to match two times (2x) the daily performance of the S&P 500 VIX Short-Term Futures Index. Over the last few days, the UVXY ran from a low of $10.60 to a recent high of $22.60.

Volatility Trade No. 2 – Velocity Shares Daily 2x VIX Short-Term ETN (TVIX)

The Velocity Shares Daily 2x VIX Short-Term ETN tracks futures contracts on the S&P 500 VIX Short-Term Futures Index. Over the past few days, the TVIX ETN has run from a low of $38.92 to a recent high of $102.50.

Volatility Trade No. 3 – iPath S&P 500 VIX Short-Term Futures (VXX)

The iPath S&P 500 VIX Short-Term Futures ETN provides exposure to the S&P 500 VIX Short-Term Futures Index Total Return. In recent days, the ETN has jumped from a low of $13.42 to a recent high of $22.70.