

WHY YOU SHOULD TRADE ETFs & MUTUAL FUNDS RATHER THAN INDIVIDUAL STOCKS

BY

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I have been trading stocks for over 40 years and mutual funds for over 25 years. I am now focusing all of my personal investments on No Load Mutual Funds and Exchange Traded Funds. You can learn more about my trading systems at my website at: <http://www.reboundtrading.com/> .

There are many reasons why I feel you should be trading mutual funds rather than individual stocks. The most important reason is the diversification that Mutual Funds and Exchange Traded Funds (ETF) provide. When you are holding an individual stock, you are exposed to large losses if there is any bad news from the company or a similar company in the same industry. Just take a look at the following headlines from "TradingMarkets.com":

- **Amazon.com (AMZN)** Q2 Earnings Fall, Miss Estimates; Boosts FY06. **AMZN shares plummet over 22%** (7/26/06)
- **Corning (GLW)** Q2 Profit More Than Triples; Q3 Guidance Below Estimates ([full story](#)). **GLW moves lower by over 14%** (7/26/06)
- **Bristol-Myers Squibb (BMY)** Q2 Profit Declines On Higher R&D Expenses; EPS Beats Estimate; Reveals Probe Into Plavix Settlement; Stock Plunges ([full story](#)). **BMY shares drop by over 7%**. (7/26/06)
- **Blockbuster (BBI)** Swings To Profit In Q2 On Lower Expenses, Gains From Tax Resolution; Adj. Loss Narrows. **Shares of BBI slide lower by almost 12%** (7/27/06)
- **Aetna (AET)** Q2 Profit Down 1%; Adj. Operating Profit Rises, Matches Consensus; Lifts FY06 Outlook ([full story](#)). **AET shares plunge by nearly 17%** (7/27/06)
- **Eastman Kodak (EK)** Q2 Loss Widens On Charges; Signs Deal With Flextronics ([full story](#)). **EK shares drop by over 13%** (8/1/06)
- **Burger King Holdings (BKC)** Posts Loss In Q4 ([full story](#)). BKC shares trade at lowest levels since its IPO back May of this year. **BKC down over 13% in today's session.** (8/1/06)

Were you holding any of the above stocks? These are not small, “fly by night” companies. These companies are probably familiar to everyone. Nevertheless, stock holders in the above companies saw their portfolio values drop significantly in this news driven market where even a slight miss to analyst expectations can cause a stock to drop precipitously. I’ll provide some additional examples later, but I think you get the point. Mutual Funds and Exchange Traded Funds can also drop in price but by only a small amount due to the diversification afforded by these investment vehicles. When one or two of the stocks in the mutual fund portfolio drop in value, it is likely that some of the other stocks will be going up which further mitigates against huge drops in portfolio value.

For the balance of this discussion I will use the terms Mutual Funds and Exchange Traded Funds interchangeably. There are very similar in structure since both Mutual Funds and Exchange Traded Funds hold a large number of individual stocks – often this can be over 100 stocks within one mutual fund. The main difference is that Exchange Traded Funds trade on the major stock exchanges just like a stock. You pay a commission to buy and to sell, there are no minimum holding periods, no early redemption fees, they are priced continuously throughout the trading day, and they can be sold short.

Now let’s get back to some other advantages that mutual funds provide over individual stocks:

DIVERSIFICATION

If you have limited funds to invest, you will not be able to buy very many shares of a single stock. Also with limited funds you can not buy very many stocks to diversify your portfolio. By investing in just a limited number of stocks, there is no way to get good portfolio diversification. With an individual stock you are exposed to the possibility that one of your stocks could get hit by bad news and then plummet in price. It takes a long time to recover from on of these massive hits. Here are a few more examples:

- **Whole Foods** ([WFMI](#)) Q3 Profit Up But Sales Fall Shy Of Street View ([full story](#)). **WFMI shares drop by over 11% in today's session.** (8/1/06)
- **Analog Devices Inc.** ([ADI](#)) Fell Short Of Analysts' Q3 Expectations ([full story](#)). **ADI shares drop by over 16%.** (8/11/06)
- **Bally Total Fitness** ([BFT](#)) Cuts Cash Contribution Outlook; To Pursue Other Financing Options; Reveals CEO Resignation ([full story](#)). **BFT shares get slashed today by over 30%** (8/11/06)
- **Sears Holdings** ([SHLD](#)) Q2 Profit Surges 83% On Lower Expenses And Rise In Gross Margin; Revenue Down 3% ([full story](#)). **SHLD shares drop over 6% in today's session.** (8/17/06)

There is a small management fee built into the pricing of mutual funds. However, the management fee is a small price to pay for all of the advantages of investing in mutual funds.

PROFESSIONAL MANAGEMENT

A skilled professional does all of the work for you. Mutual Funds managers spend every day determining which stocks to buy and sell. They have real-time access to every stock around the world. These managers work for companies where teams of research analysts examine quarterly and annual reports, interview company executives, visit factories and review market share trends. These analysts get to know the companies on a comprehensive basis. The mutual fund companies also employ technical analysts with massive computer resources to avoid buying stocks when they are over-bought from a technical standpoint. There is no way an individual investor can compete with this level of sophistication.

ECONOMIES OF SCALE

Mutual Funds are able to take advantage of the size of their buying and selling size to reduce transaction costs. This translates to a savings for the individual mutual fund investors. This enables the individual investor to diversify without having to pay numerous commission charges involved in buying 15 to 20 individual stocks needed for diversification. Speaking of diversification, here are a few more “horror stories”:

- **Penn National Gaming** ([PENN](#)) Q2 Net Profit Surges; Lifts Full Year EPS Forecast; President And COO To Resign ([full story](#)). **Shares of PENN drop over 10%** (7/27/06)
- **Conexant** ([CNXT](#)) Delivers Double Digit Core Operating Margin In Q3; Goal Reached Two Qs Ahead ([full story](#)). **CNXT shares drop nearly 12%** (7/28/06)
- **Rackable Systems Inc.** ([RACK](#)) Is Sinking On Guidance News ([full story](#)). **RACK shares plummet to close lower by 39%**. (7/28/06)
- **LMI Aerospace Inc.** ([LMIA](#)) Is Trading Lower On Q2 Earnings ([full story](#)). **LMIA shares drop nearly 16%**. (8/11/06)
- **Daktronics** ([DAKT](#)) Q1 Profit Rises On Lower Taxes; Provides Q2 Financial Guidance; Raises FY07 Sales Outlook ([full story](#)). **DAKT shares drop over 26%**. (8/11/06)
- **Merck** ([MRK](#)) Says It Disagrees With Court's Decision To Set Aside 2005 Defense Verdict In Humeston V. Merck ([full story](#)). **MRK shares tumble by 6%**. (8/17/06)

DIVISIBILITY

Many investors have insufficient money to buy round lots of securities. If someone only has \$500 or \$1,000 to invest, it is often insufficient to purchase an individual stock, especially after deducting commissions. Investors can buy mutual funds or add to their existing mutual fund holdings with a very small amount of cash to invest. This enables investors to keep their money working for them. With mutual funds, investors do not have to hold an even number of shares but can hold fractional amounts as well.

HOW DO I GET STARTED IN INVESTING IN MUTUAL FUNDS AND EXCHANGE TRADED FUNDS

At this point you may be saying to yourself; “Okay, I am convinced. But how do I know which mutual funds to buy, when should I buy them, and when should I sell them?” This is where I can help you.

Some people purchase a mutual fund and then hold it for many years. This approach to investing can be thought of as the “Buy, Hold, and Pray” philosophy of investing. My approach is quite different. I want to buy only the very best Mutual Funds and hold them only as long as they continue to perform better than other alternatives.

I invest my own money in every one of my Mutual Fund and Exchange Traded Funds trading systems. I subscribe to several advisory services to keep my universe of possible investments up to date. I then utilize four different pieces of technical analysis software to determine which funds to buy, when to buy them, how long to hold them, and when it is time to sell. I employ a strict stop loss and profit-protect methodology to keep my losses small and let my profits run. My investment approach is biased to the conservative side and can basically be thought of as an upgrading strategy. I want to constantly upgrade my various mutual fund holdings so that I am holding the best mutual funds available at any given point in time.

My subscribers mirror my own buying and selling. Whenever I buy or sell one of my holdings, I send my subscribers an email telling them exactly what I am doing, why I am doing it, and when I am plan to make the trades. I do the work so you don't have to. And, importantly, it will take you less than 30 minutes per month to make the trades with your on-line broker. You can learn more at my website at: <http://www.reboundtrading.com/> .

My goal is to double my money in 3 years. Currently, the combination of my Mutual Fund Trader and Rebound ETF trading systems will enable me to accomplish this goal. If you would like to join me in trading one or more of these robust systems, I would be delighted to have you as a subscriber. Just click on the “Get Started Now” button on any of my various Trading Systems and you too can be on your way to **doubling your money in 3 years.**

