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Financial ETFs Bounce After Months Of Slump

By JOANNE VON ALROTH

The cliches about the worst yet to come and the dark before the dawn have been wafting through Wall Street for weeks. The financial sector is writhing in pain, and with it, everything else is withering.

That includes exchange traded funds that track financials. They've tanked. One of the stalwart exchange traded funds, **Financials Select Sector SPDRs**, (XLF) has nose-dived 35% since April.

This SPDRs ETF tracks the biggest U.S. financial companies in the S&P 500 Index. **Bank of America**, (BAC) **JPMorgan Chase** (JPM) and **Citigroup** (C) are its top three holdings. The fund is weighted by market cap, and almost half of its assets are in its top 10. More than 40% of the assets are banks, with the rest including securities firms, insurance, REITs and savings & loans.

The ETF has a miserable IBD Relative Strength of 20, which is about average for this sector.

Worth Watching

Still, it bears close watching, says J. Mark Spallanzani, managing partner of Alcott Capital Management and publisher of ETFWatch.com.

"The financial strength of the whole market is represented in this ETF — it holds the key to everything else," he said. "Until you see some healing there and this fund regains its footing, the whole market's going to have trouble."

Oil price easing will help, Spallanzani said, as will more Fed-sponsored stimulating measures. Fed Chairman Ben Bernanke said Tuesday that the U.S. central bank might keep its Primary Dealer Credit Facility open into 2009 as a lifeline to financial firms. Financials rallied Tuesday on the news, pushing the ETF upward.

The PCDF allows big firms to borrow directly from the Fed at the discount rate. It opened in March when the Fed helped JPMorgan Chase buy struggling investment bank Bear Stearns. The Fed planned then to keep it open just six months, but is now set on stemming further fallout from the credit crisis.

Housing Slump

The decision came after shares of **Fannie Mae** (FNM)and **Freddie Mac** (FRE)plunged Monday on fears that the housing slump shows no signs of letting up. Data released Tuesday said consumers were still pinched and that the housing crunch is still tight: Compared with a year ago, housing sales are down 14%.

The two government-sponsored entities might need a combined infusion of $75 billion, according to Lehman Bros.

Despite the gloom, there are ways to profit. If you're a value investor, this might be your time to buy.

Following the CAN SLIM method, though, you should hold off on this sector of ETFs until there's some more credit relief. Signs show that could be as soon as Spring 2009, Spallanzani said.

If commodities ease, this fund might make a good play, he said.

"I'd be willing to sacrifice profit in a (Holdrs Oil Service fund) for a market move upward," he said.