Low-Risk ETFs Provide Shelter In The Storm

By JOANNE VON ALROTH
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You've converted to cash and you're waiting for signals telling you to get back into the market.

So what do you do with your dollars in the meantime?

You could just leave your money where it is. Your brokerage pays a small amount of interest on your cash/money market account.

Some consider a CD account a better maneuver. But that could hurt in the long term, notes Neal Frankle, president of California-based Wealth Resources Group.

"You need to make sure your cash is liquid and available so you can be ready when the market turns," Frankle said. "A CD ties up your cash, and the cost of missing a bull market by even a few months can be huge."

A better way to boost your green might be to park it in certain exchange traded funds, experts say.

Those who prefer lower-risk plays could choose to put their money into a fixed income ETF such as**iShares Lehman 1-3 Year Fund**, (SHY) which tracks the performance of the Lehman Bros. one-to-three-year U.S. Treasury Index.

Volatility

Bond funds are often less volatile than equity funds, and their stability can be attractive in tough times. Fixed-income ETFs pay dividends on a monthly basis.

IShares Lehman 1-3 Year Fund has performed well in the last two months. It was up 1.65% this year through Monday and is yielding 4.2%. But yields of most T-bill funds aren't all that high, and investors could do better in other arenas, says J. Mark Spallanzani, managing partner at Alcott Capital Management and publisher of ETF Watch.com.

"The intermediate, TIPS and short-term bond funds are kind of played out right now," Spallanzani said. "I would stay away from bonds, because I think they've made their move."

Risk

Investors who can stomach a little more risk could gain higher yields by putting their money into financial or real estate investment trust ETFs, such as the **KBW Regional Banking Fund** (KRE) and the **Dow Jones Wilshire REITFunds**, (RWR) he says. The Dow Jones fund "would definitely be a value play, but it has a nice yield," he said.

KBW Regional is yielding 5.82%, though it's down 1.65% this year. DJ Wilshire REIT is yielding 4.2% but has slipped 0.39% this year.

Times are tougher in Europe and Japan right now, so you could consider those ETF arenas, too. But investors who choose global funds should be cautious about volatility. Most important, investors should plot their course and stick to it, says Frankle.

"If your game plan calls for stepping out of the market during a down cycle, and you aren't comfortable with higher risk, then you should do that and use this time for insight," he said.


iShares Lehman 1-3 Year
SHY 83.48 -0.13 as of 2/25/08
84
83
82
81
Daily Graphs available at
investors.com/DGO/IC
Volume
1,280,000
580,000
260,000
12
26
9
23
7
21
4
18
1
15
29
October '07
November
December
January '08
February