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Flexibility for Your Portfolio

Market volatility is either revered or despised by investors. On the positive side, it can be viewed as an opportunity to capitalize on short term trading ideas or to buy some of those great blue-chip stocks that have pulled back recently. On the flip side, it is difficult for many investors to deal with the emotional rollercoaster that accompanies unpredictable markets. However, no matter which side you are on, you have choices – with options available both to capitalize and to reduce risk.

One of the simplest methods is to add exchange traded funds (ETFs) to your portfolio. ETFs are investment vehicles that track a basket of stocks and trade on the exchange. They add diversity to your portfolio and grant access to a greater variety of investment options. They are a lower cost and much more flexible alternative to mutual funds.

For example, if you purchased the iShares CDN Gold Sector Index Fund, you would gain exposure to a number of top gold producers including Barrick Gold Corp., Goldcorp Inc., and Newmont Mining Corp., et cetera. To buy these stocks outright would require quite a hefty amount of your capital and would increase the potential for volatility in your portfolio. By opting for an ETF, you diversify your risk and limit the impact of large market swings.

If you want to capitalize on some of the more recent market dips, I'd suggest closely scrutinizing your portfolio to look for weak points. For instance, if your portfolio is lacking in a particular sector, you might want to consider a related ETF to gain some exposure. Perhaps you are currently holding an underperforming stock but you still like the sector. In that case you can switch the stock out for an ETF.

ETFs can be particularly beneficial if you are interested in gaining exposure to some of the more popular trends. For example, if you were looking to add some fertilizer holdings to your portfolio, you might consider one of the agriculture ETFs. Since the prices of many of the large-cap fertilizer stocks are well over $100 per share, it can be much more cost effective to purchase the ETF. And, as the large-cap fertilizer stocks tend to be rather volatile, an ETF can help minimize these effects.

There are many different types of ETFs to suit your individual needs. If you are an aggressive investor, you can opt for some of the more sophisticated ETFs on the market. If you are more conservative in nature, you can use ETFs to diversify your portfolio and reduce risk. Either way, you can use the market swings to your advantage: you can pick up some great ETFs and potentially minimize the volatility in your portfolio.

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