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## Small dose of short fund might act as salve

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First, stock market losses left a sting. Now, after a nearly 50 percent decline, the losses feel like an open wound.



That's especially true for retirees who depend on their savings for living expenses. They've watched in horror as even portfolios light on stock mutual funds have lost 20 percent or more.

"I look at their portfolios and I can't believe my eyes," said Cathy Curtis, an Oakland financial planner. When she talks to some clients, she said, "I hear their voices quavering, and I know they aren't sleeping."

So Curtis, like other planners seeking to soothe clients, has been reaching for something to dull the pain while she urges clients to wait for their stock mutual funds to heal.

The answer: A small dose of a mutual fund that shorts stocks, betting on them to fall. In contrast to the usual stock mutual funds that people buy and hold for the long term, the short funds are designed to make money when the stock market gets ugly. The worse the decline in the stock market, the more money the investor makes in the funds.

Curtis' favorite short fund is the Leuthold Grizzly Short fund (GRZZX), but there are numerous choices that bet on various indexes—or parts of the stock market—to decline.

Gary Bowyer, a Park Ridge financial planner, has been calling his clients the last few weeks to see how they would feel about the strategy. He is offering a choice between two funds, the Short S&P 500 ProShares (SH) and the Rydex Inverse 2x S&P 500 (RSW).

His plan is to invest 10 percent to 15 percent of a client's portfolio in the short fund. But he isn't selling shares in other stock mutual funds and he isn't taking the strategy lightly. He wants clients to know that they could risk losing even more money than they have already by using the strategy.

If an investor puts money into the funds and the market shoots up, the person will lose money. So after all the losses they have incurred by holding on to stock mutual funds, they could lose again if the market takes an unexpected turn for the better. The short fund would rub salt into the wounds because the 10 percent to 15 percent of a person's portfolio in the fund wouldn't have the chance to heal in an upturn.

In addition, the "2x" in the Rydex Inverse fund name means the fund is designed to give twice the impact of market moves. So if the Standard & Poor's 500 index—a rough measure of the stock market—were to climb 44 percent, as it has on average after bear markets, the investor could lose about 88 percent in the short fund. The "inverse" in the fund name means that the fund will do the opposite of the stock market.

A more modest approach is found in the Short S&P 500 ProShares. It doesn't multiply the impact by two. So if the stock market climbs 44 percent, the fund will lose 44 percent.

Because the movements of the stock market are so unpredictable, Bowyer sees the strategy as risky, especially at a time when the stock market has already fallen considerably.

"I wouldn't try this at home," he said.

In fact, Kenneth Solow, a Columbia, Md., financial planner, said now would be the time to remove money from a short fund that bets on a downturn, instead of turning to such a fund. After a sharp decline in the stock market over the last year, he thinks it's more likely stocks will end up climbing.

Bowyer knows the stock market is unpredictable. His plan is to be attentive to market moves so he can abandon the short strategy quickly if he sees the probability of an upturn brewing. If, for example, the S&P 500 dips to 700 after being at roughly 800 last week, Bowyer said he would sell the shares of the short fund.

He said he would park the money in cash if he suspected an ongoing bear market, or he would go bargain hunting in the stock market.

He recommends individual investors avoid short funds because their inclination would be to feel safe in such a fund and stay in it too long during a downturn. Historically, when awful bear markets have occurred, people have recouped money from their losses during unpredictable swings upward.

A safer fund, Bowyer said, could be the Hussman Strategic Growth fund (HSGFX). The fund can short the market or invest for upturns, so it isn't locked into negative bets like the short funds are. Still, the fund isn't a pure play on a down market and recently had declined about 12 percent for the year.

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