

# Five **Smart** Ways of Using Sector Funds

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Some mutual funds and exchange-traded funds concentrate their investments in a specific sector or industry. Called sector funds, they offer the potential for superior rewards compared to diversified mutual funds or ETFs. Sector funds can also be volatile. Prudent investors do not shy away from sector funds; they make sector funds work for them while managing risk. Here are five **smart** ways to use sector funds arranged in order of increasing risk-tolerance.

### **Method I: Reduce Volatility of Investment Portfolio**

Investments in sectors or industries like consumer staples or gold can help to lower volatility of investment portfolios or increase the odds of earning positive returns in a bear market. Demand for consumer staples is generally less sensitive to the vagaries of the economy. As such, share prices here tend to be less volatile. The price of gold tends to rise when economic uncertainty escalates. Oftentimes, gold-related assets can prosper when the broad market is in retreat.

### **Method II: Prosper from Long-term Growth of Specific Sectors**

Some sectors or groups are positioned to benefit from secular factors that can sustain for years. Biotechnology and commodities are examples of such groups. The expertise to develop new approaches to disease management and personalized treatment regimens puts biotechnology companies in a good position to serve an aging population. Producers of oil as well as industrial metals can prosper if the drive to build infrastructure and raise living standards in emerging nations pumps up demand and suitable substitutes are not developed.

### **Method III: Construct Diversified Portfolio for Long-Term Capital Appreciation**

In lieu of using stocks or broadly diversified mutual funds, sector funds or sector ETFs can be used as building blocks for constructing a customized diversified portfolio. It helps to have a structured process to evaluate and choose sectors as well as industries to implement this approach. Representation in four or more sectors can usually provide a healthy level of diversification. This approach offers the advantage of investing in promising sectors while leaving out less promising ones. By periodically changing the sector mix, one can adapt to evolving market conditions and continually optimize the diversified portfolio's risk-reward characteristics.

## How AlphaProfit Helps



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AlphaProfit Investments, LLC is an **independent** investment research firm located in Sugar Land, TX.

AlphaProfit Sector Investors' Newsletter is featured among **MarketWatch's top 10** investment newsletters. The newsletter has bagged **Hulbert Financial's #1 rank** several times.

### ✓ Sector & Industry Selection

Using the **ValuM Investment Process**, AlphaProfit selects sectors and industries possessing high relative strength, attractive valuation, and superior growth potential supported by catalysts or favorable fundamentals.

### ✓ Long-Term Capital Appreciation Portfolio

AlphaProfit provides the **Core Model Portfolio** with 7 to 8 sectors and industry groups for long-term capital appreciation. Periodic changes of sector mix helps optimize the risk-reward characteristics of the portfolio to evolving market conditions.

### ✓ Aggressive Growth Portfolio

AlphaProfit provides the **Focus Model Portfolio** with 2 to 4 sectors and industry groups for aggressive growth. The choice of sectors and industries and the weightings provided to them help to optimize the risk-reward characteristics of the portfolio.

### ✓ Short-Term Profit Opportunities

AlphaProfit assigns **Favored Buy Ratings** to signal short-term profit opportunities. The rating is removed when the sector or industry is no longer deemed compelling.

## Method IV:

### Construct Less-Diversified Portfolio for Aggressive Growth

Akin to constructing diversified portfolios for long-term capital appreciation, less-diversified portfolios for an aggressive growth investment objective can also be constructed using sector funds. A few of the most promising sectors and industries can be included in this portfolio. The portfolio's risk-reward characteristics can be continually optimized by periodically changing its sector mix. Although the volatility of the less-diversified portfolio can be controlled to some extent by the choice of sectors or industries and the weightings provided to them, such a portfolio is often more volatile than a well-diversified one. Investors using sectors funds in this fashion make sure that their investments taken in total are well-diversified.

**Method V:  
Profit from Short-Term Opportunities**

Share prices in a sector or group can temporarily come under pressure due to specific news or developments. Hospitality or travel shares for example often decline when political tensions rise or fears of pandemics increase. Such events can provide risk-tolerant investors with opportunities to earn quick profits if the decline is overdone and the group's longer-term prospects are unimpaired.

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