

"Market Correlations And Hedging Strategies"

by Robert Hauver

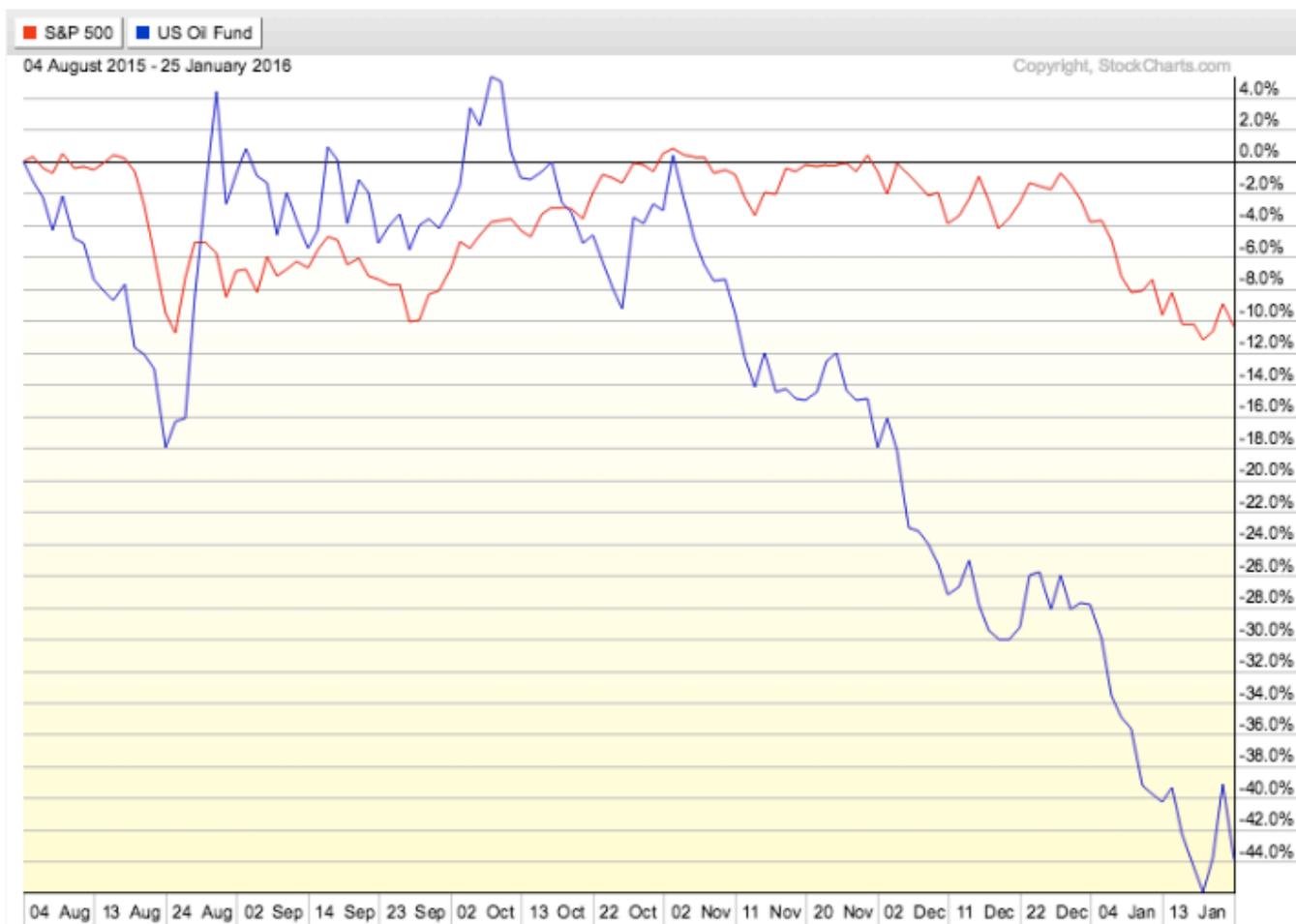
Have you noticed any surprising market correlations over the past several months? Much has been written in the press about the US market's increasingly high correlation with Oil & Basic Materials prices, the Chinese stock market, and High Yield Bonds.

Income investors have seen their once-steady dividend stocks decline over the past few quarters, as the market punished all things Energy-related. In fact, some of these stocks, (the ones which have maintained or even increased their dividends), have even moved into the realm of high dividend stocks, even though they've all risen significantly from their 52-week lows over the past few months.

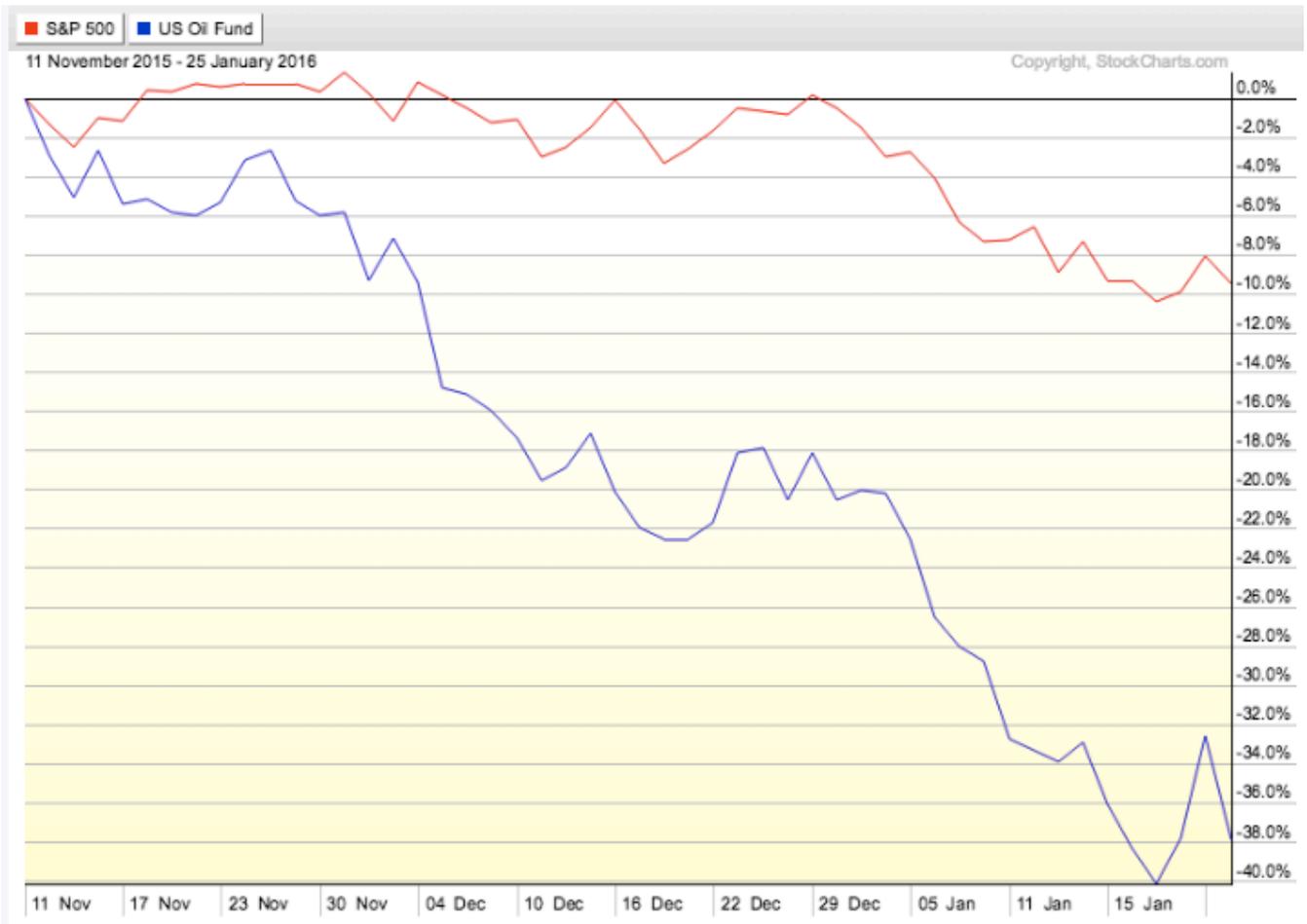
Here are just some of the highest dividend yields in the Energy section of our [High Dividend Stocks By Sectors Tables](#).

COMPANY NAME	STOCK SYMBOL	CURRENT SHARE PRICE \$	ANNUAL DIVIDEND PER SHARE \$	DIVIDEND YIELD %	52-WEEK LOW	52-WEEK HIGH
Archrock Partners LP	APLP	\$8.86	\$2.29	25.85%	\$7.08	\$27.93
NGL Energy Partners LP	NGL	\$11.82	\$2.56	21.66%	\$7.56	\$33.64
Usa Compression Partners LP	USAC	\$10.23	\$2.10	20.53%	\$7.57	\$24.30
Martin Midstream Partners L.P.	MMLP	\$16.64	\$3.25	19.53%	\$13.27	\$38.61
Dynagas LNG Partners LP	DLNG	\$9.19	\$1.69	18.39%	\$6.70	\$20.95
Cypress Energy Partners LP	CELP	\$9.10	\$1.63	17.86%	\$5.28	\$19.83
Golar LNG Partners LP	GMLP	\$12.98	\$2.31	17.80%	\$7.55	\$30.25
Navios Maritime Midstream Partners LP	NAP	\$9.50	\$1.69	17.79%	\$6.58	\$18.00
DCP Midstream Partners, LP	DPM	\$17.82	\$3.12	17.51%	\$15.09	\$41.75
GasLog Partners LP	GLOP	\$11.70	\$1.91	16.34%	\$9.57	\$29.45
KNOT Offshore Partners LP	KNOP	\$13.08	\$2.08	15.90%	\$9.68	\$26.49

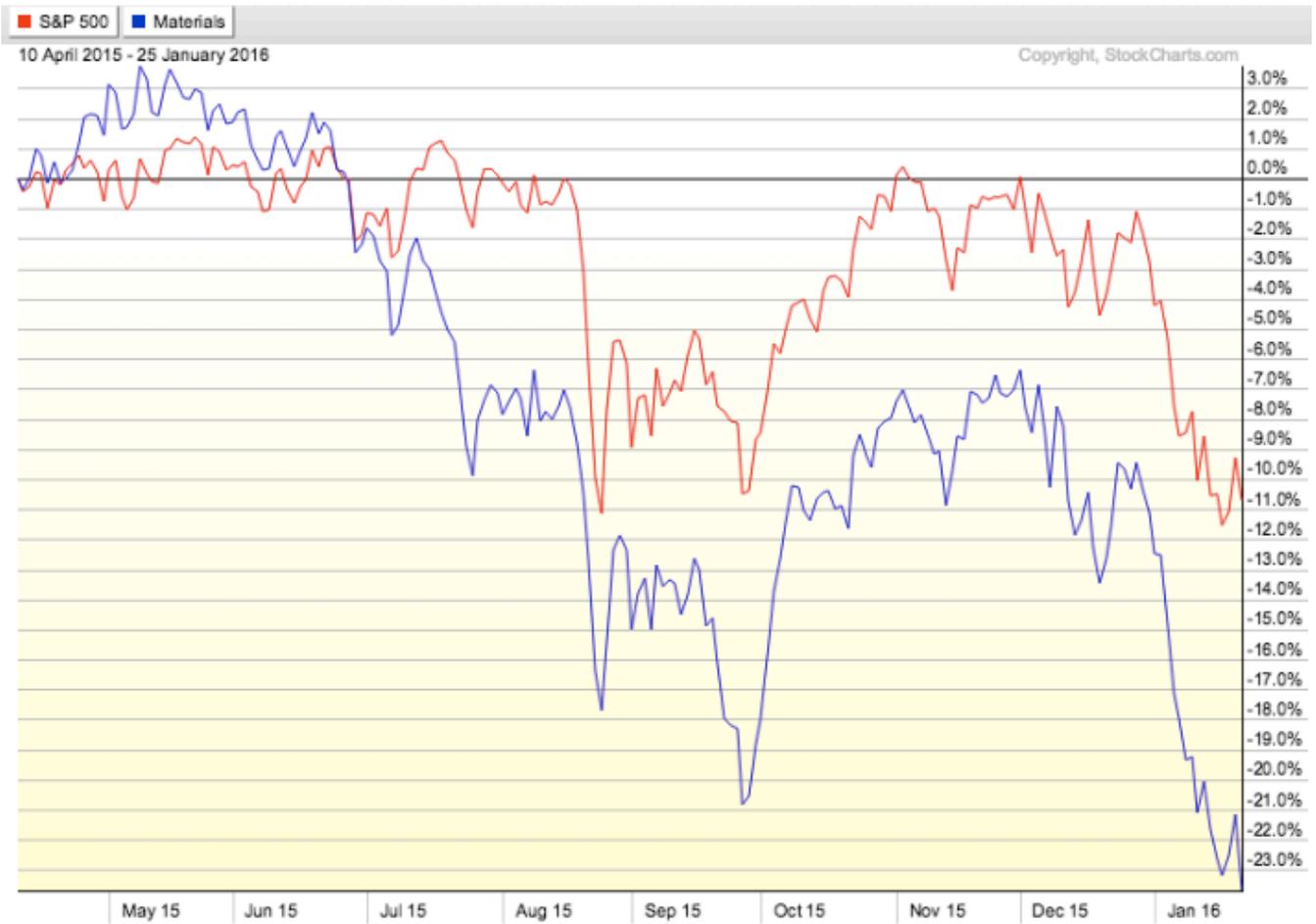
Crude Oil prices have had a strong correlation with the S&P 500:



This Crude Oil/S&P correlation has actually strengthened over the past 2+ months - We hear about this almost every day - "Crude is up - the market's up", and vice versa:



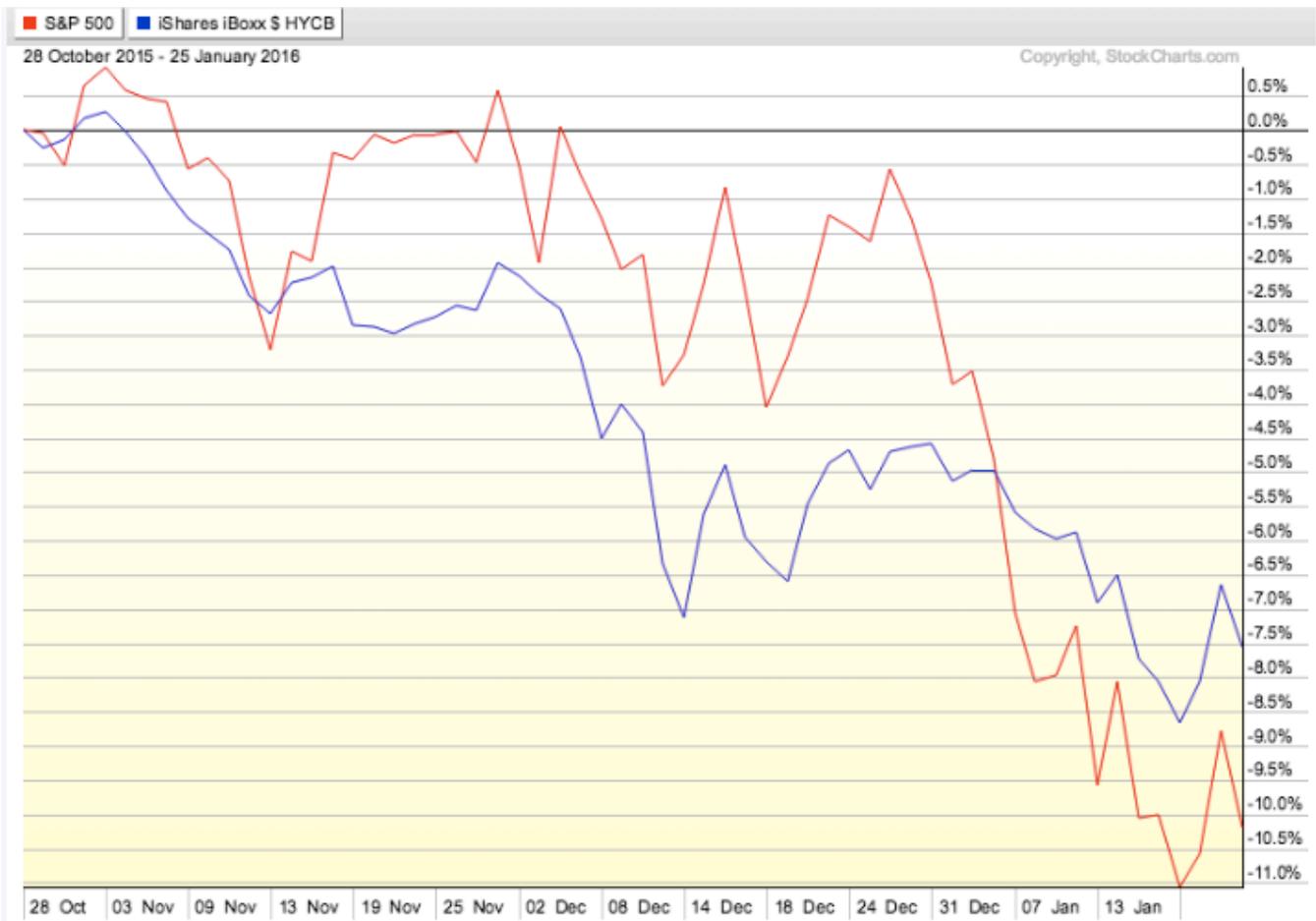
The S&P 500 has almost moved in lockstep with Basic Materials prices since April 2015:



Chinese stock market prices have also linked up strongly with the US market, especially since the August 2015 Chinese market meltdown which threw US markets into turmoil:



High Yield Bond prices have also had a mostly strong directional relationship to the S&P 500:



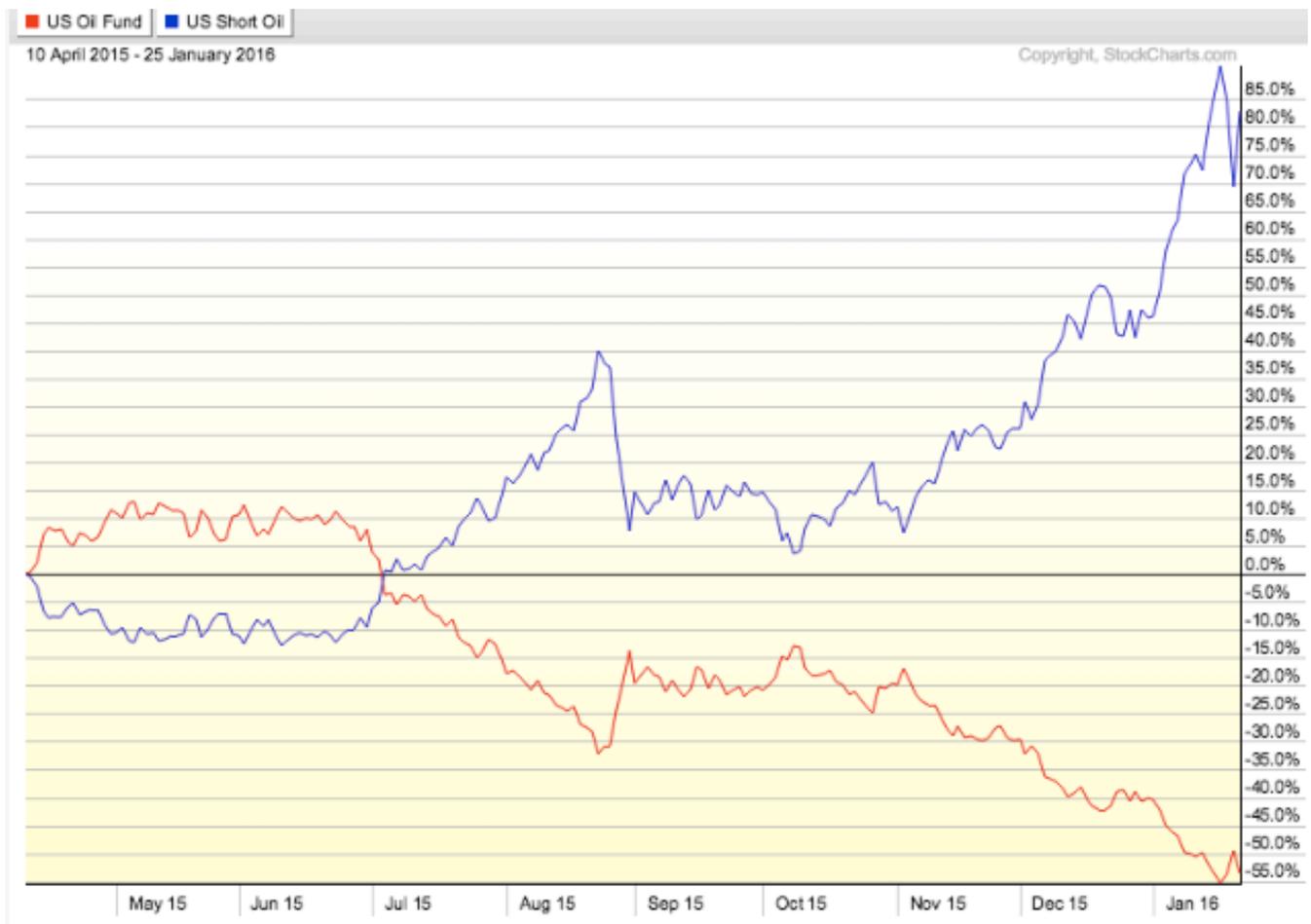
How to Hedge Your Income Portfolio vs. These Correlations:

In addition to trying to stick with LP's, MLP's, and other dividend paying stocks which have the wherewithal to maintain or increase their payouts, there are other tools available to you to hedge against negative external forces.

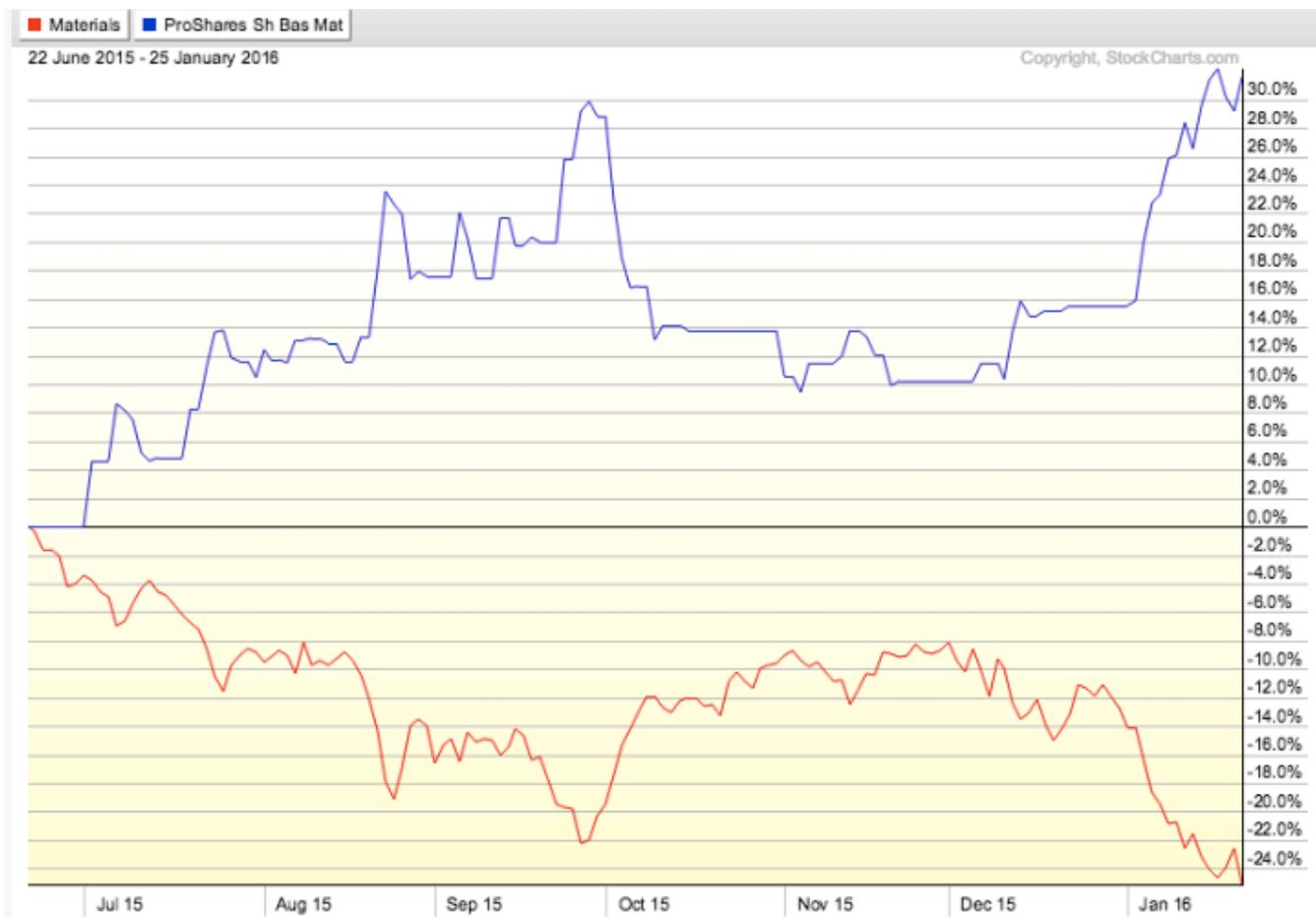
Crude Oil Hedge:

The US Short Oil ETF, (DNO), seeks to mimic the daily changes in percentage terms of its shares per share net asset value to *inversely reflect the daily changes in percentage terms of the spot price of West Texas Intermediate (WTI) light*. The fund seeks to achieve its investment objective by investing in short positions in futures contracts for WTI light, sweet crude oil, other types of crude oil, diesel-heating oil, gasoline, natural gas and other petroleum-based fuels. The Benchmark Futures Contract is the futures contract on WTI light, sweet crude oil as traded on the NYMEX.

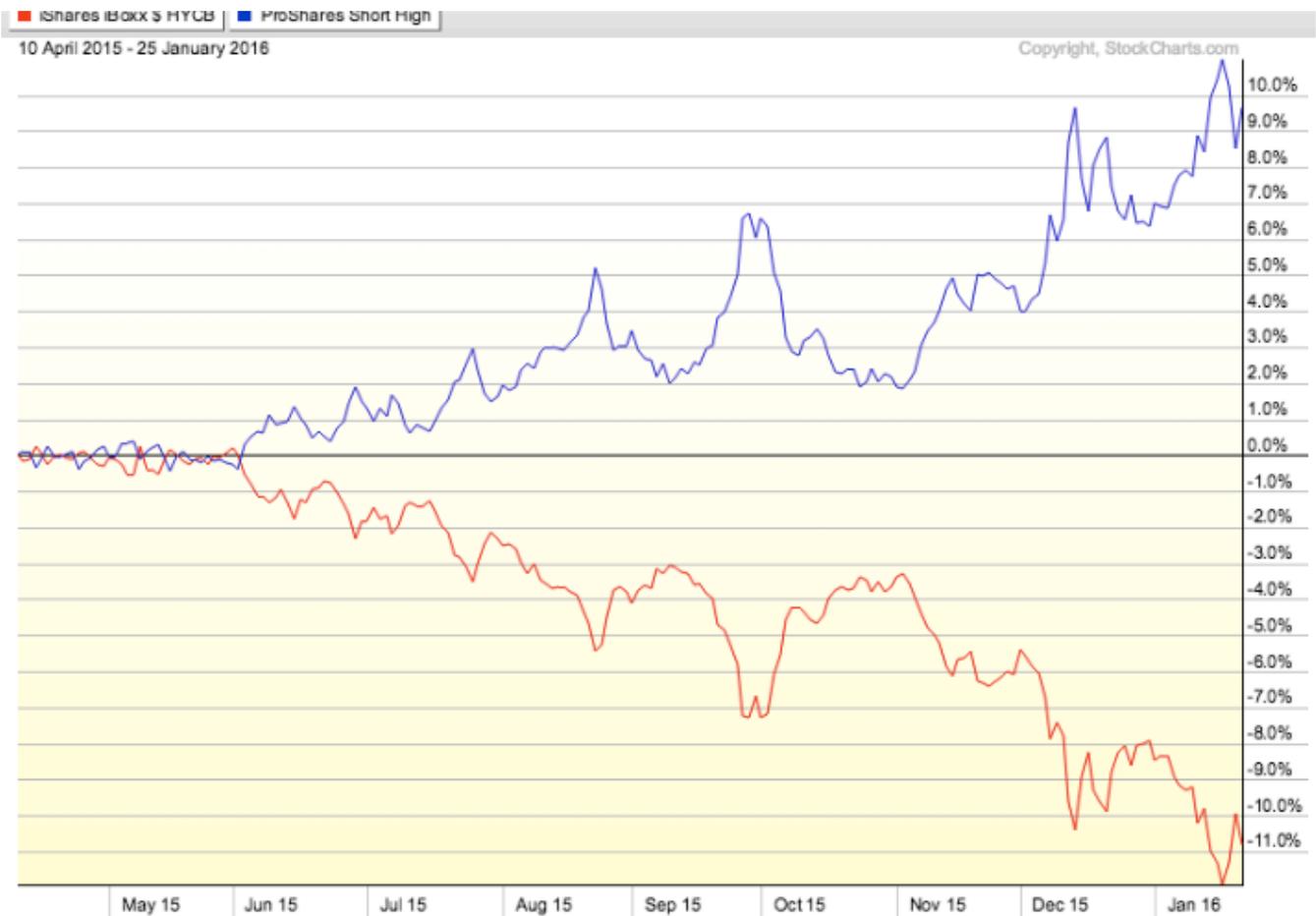
DNO is up over 57% over the past year, and is up over 25% in 2016.



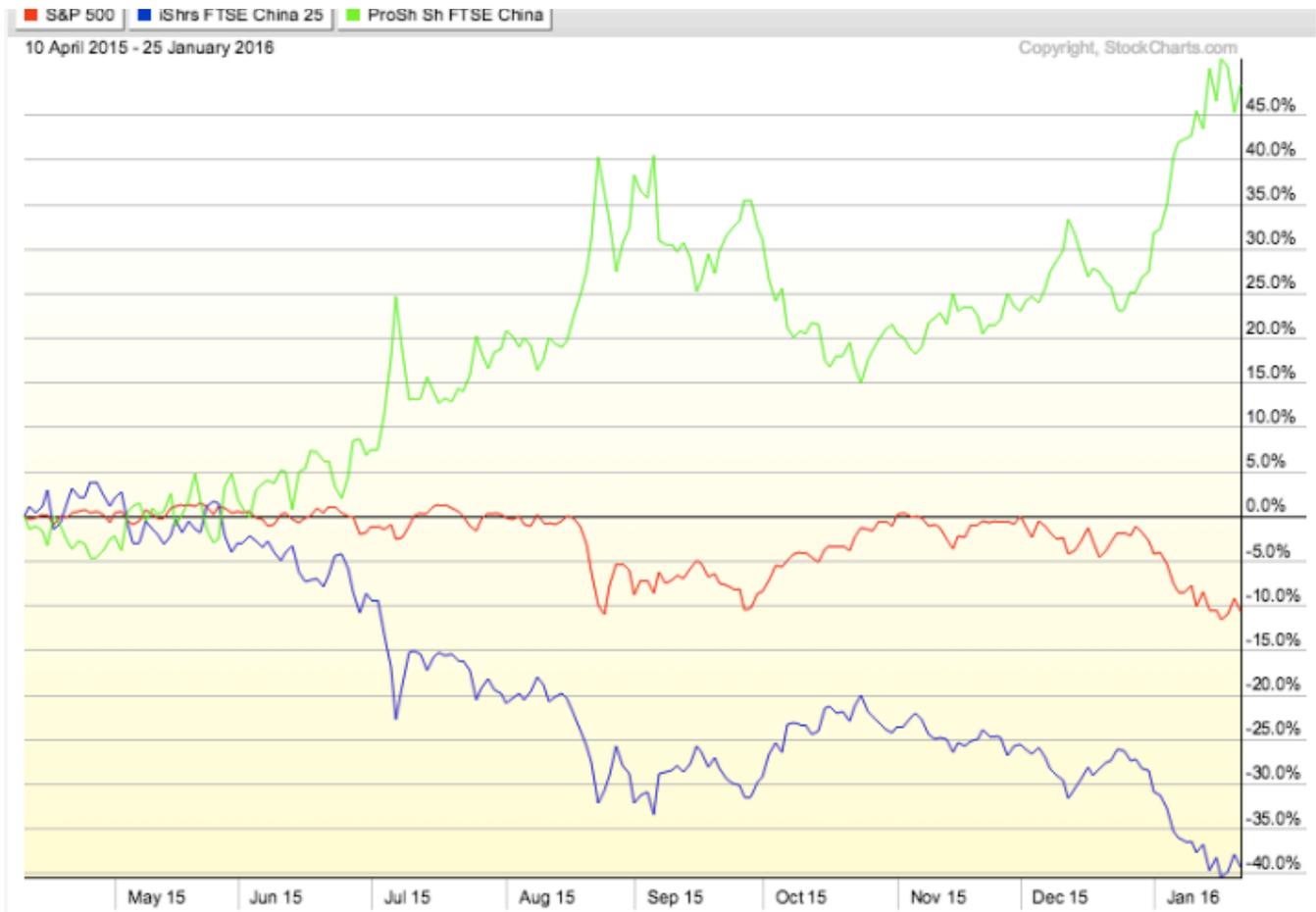
Basic Materials Hedge: The ProShares Short Basic Materials ETF, (SBM), seeks daily investment results that correspond to the *inverse (-1x) of the daily performance of the Dow Jones U.S. Basic MaterialsSM Index*. The index measures the performance of the basic materials sector of the U.S. equity market. Component companies are involved in the production of aluminum, steel, non-ferrous metals, commodity chemicals, specialty chemicals, forest products, paper products, as well as the mining of precious metals and coal. This is a more thinly traded ETF, with only about 8,000 shares traded daily, vs. 28,000 for the DNO Short Crude ETF.



High Yield Bond Hedge: The ProShares Short High Yield ETF, (SJB), seeks daily investment results that correspond to the inverse (-1x) of the daily performance of the Markit iBoxx \$ Liquid High Yield Index. The fund invests in derivatives that ProShare Advisors believes, in combination, should have similar daily return characteristics as the inverse (-1x) of the daily return of the index. The index is a modified market-value weighted index designed to provide a balanced representation of U.S. dollar-denominated high yield corporate bonds for sale within the United States by means of including the most liquid high yield corporate bonds available as determined by the index provider. SJB has had more modest gains - it's up over 6% over the past year, and over 3% in 2016. Average volume is approx. 197,000 shares.



China Market Hedge: The ProShares Short FTSE China 50 ETF, (YXI), seeks daily investment results, before fees and expenses, that correspond to the *inverse (-1x) of the daily performance of the FTSE China 50 Index*. The fund invests in derivatives that ProShare Advisors believes, in combination, should have similar daily return characteristics as the inverse (-1x) of the daily return of the index. The index is comprised of 50 of the largest and most liquid Chinese stocks listed on the Hong Kong Stock Exchange. YXI is up over 27% over the past year, and over 16% in 2016. It trades an average of around 13,000 shares daily.



Disclosure: Author owned shares of USAC, DLNG, GMLP, and GLOP at the time of writing this article.
 Disclaimer: This article is intended for informational purposes only, and is not intended as investment advice.
 Please do your own due diligence before investing in any stocks mentioned in this article.
 Charts Source for this article: StockCharts.com

Copyright 2016 DeMar Marketing. All rights reserved.