4 ETFs For Trading Oil's Next Big Move

Active traders turned their attentions back toward the oil markets this past week as the bears managed to regain momentum. Technical breakdowns on the charts of several key ETFs are creating interesting opportunities for traders willing to take on risk. In the article below we'll identify key levels of support and resistance that will be used as a guide by many for placing trades and managing risk.

Let's take a look at the chart of the PowerShares DB Multi-Sector Commodity Trust Oil Fund (DBO), an index comprised of light sweet crude oil futures. You will notice that the price recently moved below a key level of short-term support. This chart is an interesting example of how the price of an asset can trade for many years between a defined range (shown by the blue and red arrows). Notice how the price has been trading sideways since the beginning of 2015. From a technical analysis perspective, the recent break below the dotted support near $12.35 (red circle) suggests that the next move is lower. Many active traders will now likely use the bearish crossover between the MACD (moving average convergence divergence) indicator and its signal line (black circle) as confirmation of a potential move lower. (For more, see information and advice on crude oil.)

PowerShares DB Multi-Sector Commodity Trust Oil Fund (DBO)

Another exchange traded fund that is popular amongst commodity traders for gaining exposure to an unleveraged position in West Texas Intermediate crude oil futures is the iPath S&P GSCI Crude Oil Total Return Index ETN (OIL). As was the case shown above, the 5-year weekly chart has broken below a key level of support and the break below the swing low of $9.23 along with the bearish MACD crossover suggests that lower prices are likely in the cards. (For more see: A Guide To Investing In Oil Markets.)

iPath S&P GSCI Crude Oil Total Return Index ETN (OIL)

Key subsectors of the industry can give clues on whether a technical breakdown is significant or whether it is just a short-term anomaly. Taking a look at the Market Vectors Oil Services ETF (OIH) below, you can see that the breakdown in oil prices is already presenting itself on the charts of the key services sector. Again, the red circle highlights the technical breakdown. Many technical traders will look to enter short positions as close to the trend line as possible and the bearish crossover between the MACD and its signal line will be used as confirmation. From a risk management perspective, most short-term traders will look to place stop-loss orders above the dotted resistance level near $32.78. Depending on risk tolerance, position traders or those with a longer time horizon will likely look to place their stop-losses above the combined resistance of the upper trend line, the 50-day moving average (blue line) and the 200-day moving average (red line). (For more see Risk Management Techniques For Active Traders.)

Market Vectors Oil Services ETF (OIH)

Many active traders rightfully don't feel comfortable entering a short position. Those who would like to trade the break below the key support levels discussed above, but would like to do so by only entering long positions, may want to investigate the ProShares UltraShort DJ-UBS Crude Oil ETF (SCO). Taking a look at the five-year weekly chart below, you can see that the price recently broke above a key level of resistance. This should not come as a surprise since it is inversely correlated to the performance of the Bloomberg WTI Crude Oil subindex. The catch here is that it offers traders twice the exposure or two times that of crude oil. This means, roughly speaking, that a one dollar move lower in crude prices will lead to a two dollar gain in the price of the ETF. This could be an interesting alternative for traders who do not have a futures account or who do not feel comfortable holding a short position.

UltraShort DJ-UBS Crude Oil ETF ([SCO](#))

The Bottom Line

Active traders are turning their attention to the price of falling crude oil and are looking for exchange traded funds that they can use to trade the move. In this article, we took a look at four key ETFs that offer different levels of exposure and risk. Each one provides traders with an ideal entry point. (For related reading see [Preparing For An Energy Bear Market](#)