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## Investment managers: Don't panic

By: CHRIS BAGLEY - Staff Writer

NORTH COUNTY -- It might be tempting to think that the massive sell-off on Wall Street Tuesday morning brings investors a step closer to the edge of a financial precipice, but North County investment managers and advisers said it brings the smart ones a step closer to the inevitable buyers' market.

Major stock indices were hammered in the morning, but recovered in the course of the day as investors responded to the Federal Reserve's sudden cut in the rate that banks must charge one another on overnight loans.

The Dow Jones industrial average, representing shares of 30 large companies, lost nearly 500 points, but climbed back to 11,971, down 128 points for the day. The Standard & Poor's 500 index ended Tuesday's trading session a bit more than 1 percent lower than its close Friday.

Local investment managers said they had seen a brief flurry of activity when markets opened at 6:30 a.m., but had gone about their business at a regular pace for most of the day. A receptionist at The Raymond J. Lucia Companies Inc. said the morning had passed without a single call from a frantic client.

"It does raise some concerns," said Rick Mayes, a Carlsbad financial adviser. "But we're always trying to prepare in advance for living through these things."

Several managers noted the one-day change followed an overall downward trend in recent months. That trend will almost certainly continue as banks remain cautious about extending credit to people who want to buy homes and entrepreneurs who want to expand their businesses, the managers and advisers said.

Jim Welsh, an independent investment manager in Carlsbad, acknowledged that the cut in the Federal Funds Rate, to 3.5 percent from 4.25 percent, was the largest in more than a decade. And its timing between regularly scheduled meetings of the Federal Open Markets Committee was rare, Welsh noted.

But that move wasn't dramatic enough to keep banks from re-evaluating their lending standards, as they find themselves having to write off more and more bad loans, Welsh said.

"The Fed's ability to deal with this is much more limited than anybody realizes," Welsh said. "The Fed can't change what's on people's balance sheets. Credit was way too cheap for too long. People lent too aggressively and borrowed too aggressively."

Welsh typically invests his clients' money in funds that mirror the performance of the Standard & Poor's 500 index. He said Tuesday that he has sold off those securities in recent months on the expectation that the index will continue to slide.

If it falls much further, he said, he'll buy into those funds again. But if shares rise in response to more goosing by the Fed or by the government, he said, he might even take a "short" position on an S&P index fund, essentially betting that the index will decline. A "short" investor borrows

shares of a stock or fund, sells them, and hopes to repay the lender with shares he buys more cheaply.

Bill Chenoweth, a portfolio manager with Hokanson Associates in Solana Beach, said he recommends that his own clients, mostly long-term investors, avoid reacting to market gyrations. Several other advisers agreed.

Chenoweth said the firm has recently backed away from stocks in the financial industry and other companies that are sensitive to the economic cycle. The action on Wall Street Tuesday morning prompted Hokanson's managers to discuss when they should begin to reinvest in the financial sector and which companies they should choose.

Early candidates will probably be regional banks, Chenoweth said. Those companies' shares have gotten dragged down with those of larger financial companies, even though they're losing far less money on bad loans, he said. Relatively solid balance sheets will eventually translate into rising share prices, he said.

"We take a longer term view for our clients," he said. "It's really more of a matter of where we see things going in the future."

### **Surviving rough markets**

Those who oversee other people's money suggest ways to survive rough markets:

- Consider your investment timeline. If you don't need to draw on investments for the next several years, leaving them in place rather than pulling out often makes for better long-term returns.
- Examine the risks each investment type might face. If changes are necessary, make them gradually.
- Think about selling holdings that have done well to put money into areas where bargains can be had, such as beaten down but still-sound investments.
- Set up a schedule before shifting money in or out of the markets, so that changes follow the calendar and aren't subject to the emotion of the market's daily ups and downs.
- Build a diversified portfolio to guard against big losses from a single investment.

-- Source: Associated Press