



## Searching for promising investments

### *Wealth managers see risks and opportunities in economic recovery*

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by Doug Childers

The nation's gross domestic product numbers show that the recession is over, but investors may be forgiven if they doubt that the storm has passed.

The stock market in fact has been one of the few bright spots in the economy during the past eight months. After hitting bottom on March 9, the Standard & Poor's 500 index had risen 53 percent by early November.

But worries linger. Will stocks continue to climb as the economy recovers or are we in for another bumpy ride? And if the market dips again, where should investors shift their money?

Some Virginia wealth managers caution that the stock market could still fall in coming months. "Because it has come as far and as fast as it has, there could be a correction" in stocks, says Timothy Jones, chairman of Fairfax-based CJM Wealth Advisers. "We could see a 10 to 20 percent adjustment. But we're not talking about going back to where we were in March. Logic tells you the stock market should do pretty well as companies' profits improve."

As the market began recovering in the spring, Jones moved his clients back into equities, albeit slowly. "We told them, 'If it gets worse, we'll stop and freeze it,'" he says. "But the market got better, and they didn't have reservations."

Because he believes the economy is beginning a slow recovery, Jones suggests small-cap and mid-cap stocks might be good investments. "We're looking to get back into real estate and commodities, which will do well if we have inflation in the future," he says. CJM Wealth Advisers, which does business in more than 30 states, has 350 clients and manages more than \$300 million in assets.

Even with the stock market climbing, investors are picking stocks carefully. "People are going to look at specific companies more carefully now, and that will allow for companies that were pushed down and have good earnings to rise back up," says Darin Ely, president of the Virginia Beach-based Virginia Asset Group. His firm manages assets worth a total of \$100 million for 575 households.

Like Jones, Ely believes we could see a market correction. "But I wouldn't take a bet either way in the short term," he says. "Longer term, if the government can get spending under control, we can have a strong recovery."

Joel S. Williams is less optimistic about the stock market's short-term prospects, especially given the nation's persistently high unemployment numbers. The founder and managing principal of Blacksburg-based Joel S. Williams | An Alliance of Wealth Advisors believes we're in the middle of a short-term rally within a long-term bear market. He worries that the market could drop 50 percent or more over the next year. His advice is simple: Ask your wealth manager to pick stocks based on absolute returns or get out of the stock market. Absolute return strategies use the amount of the original investment as a benchmark for performance, rather than relying on relative benchmarks like the S&P 500. An investment could outperform the S&P and still lose money, Williams points out.

For investors who can't find an absolute return manager, Williams recommends putting 50 percent of their capital in an index of the U.S. dollar and 50 percent in an inverse index of the S&P 500.

Indexes of the U.S. dollar, which are exchange-traded funds tracked on the futures market, gain value when the dollar outperforms other currencies. An inverse index of the S&P 500 gains value when the S&P falls. Williams recommends that investors stick to this strategy until the Dow falls to somewhere between 5,000 and 7,000 points.

Ultimately the Dow will reach 20,000, "but not in this period," he says. Williams' firm manages about \$125 million in assets for approximately 85 core clients.

Of course, wealth managers have more than stocks to choose from. "We like to remind our clients that there is an entire market separate from equities," says Steven Cooke, director of investments for Heritage Wealth Advisors. "Some parts of the bond market have performed very well since the March lows."

The Richmond-based firm has 80 ultra-high-net-worth clients and manages assets worth \$182 million. It is investing in preferred stocks and high-yield bonds, for example. Dee Ann Remo, the firm's founder and president, is emphasizing patience and diversification with her clients. "As we talk about opportunities, we're still very focused on a risk perspective," she says. "We want to capitalize on opportunities, but we're focused on the risk side of the equation." For most of her clients, that means a diversifying their investments among stocks, bonds and cash. "The asset allocation we put into place for our clients tends to pay off in the short as well as the long term."

The Virginia Asset Group's Ely began moving clients into A and double-A corporate bonds when markets began falling last year and saw good returns. "That opportunity is still there today. I'm extremely excited about buying A and double-A bonds with a shorting strategy on government bonds," Ely says, because he believes the value of government bonds will decline. "I expect this to help us in a rising interest-rate environment."

And international bonds could play a bigger role in client portfolios if inflation rises "because anything that is dollar-denominated will depreciate," says CJM's Jones. He suggests that inflation — fueled by record-setting government spending — is more likely to pose a risk in the two- to five-year range than it is in the next two years. "If we have hyper-inflation — 6 to 8 percent or more — you'll have to take a look at whether you want to hold stocks and bonds at all."