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STOCKS: THE DAY AFTER

Market strategists look ahead

A day after the U.S. stock market's biggest fall in almost a year, some strategists called the decline an overreaction and said stocks are a good buy.

David Mead
Chief investment officer, Harris Bank
Cyclically oriented stocks ... "could be the next market leaders." Go after the ones that have been left behind.

Tribune photo by Candice C. Cusic

Abby Joseph Cohen
Market strategist, Goldman, Sachs & Co., New York
Don't be scared. The market's recent correction is only creating a buying opportunity for savvy investors.

AP photo

Leo Melamed
Senior policy adviser, Chicago Mercantile Exchange
Admitting to being increasingly bearish about the stock market in recent years, Melamed would advise small investors to put their money into ultra-safe U.S. Treasury securities.

John Rogers
President, Ariel Mutual Funds
Don't bail out. Look for bargains among smaller stocks, which have already corrected. Stay away from big-name stocks, which still have their comeuppance ahead.

Tribune photo by Ovie Carter

Kerry Fox
Vice president, branch manager of Charles Schwab & Co. Inc.
"Our investors know that we believe in long-term strategies in diversified portfolios and knowing themselves as investors. You have to know your tolerance for risk."

Tribune photo by Candice C. Cusic

Michael K. Evans
Professor of economics, J.L. Kellogg Graduate School of Management, Northwestern University
"This is not 1987." Now is not the time to pull out, he says.

Elaine Garzarelli (photo not available)
Chairwoman of Garzarelli Investment Management
She's bullish on the stock market – "You can buy anytime here" – because she sees interest rates declining.

Rallying around flag of calm

By Tribune Staff

The stock market's recent volatile decline has left many investors wondering whether the seven-year bull market that has pumped up their portfolios and retirement plans is finally coming to an end.

Ask any number of market gurus, and you'll get a variety of answers. But the most consistent response is likely to be a version of the trusty advice offered by author Douglas Adams in "The Hitchhiker's Guide to the Galaxy": Don't panic.

To save you the trouble, the Tribune solicited the opinions of seven market experts. One of them did advise sitting out the turbulence by switching to Treasury securities. But most believe there are still ways to play this market, whether it's by bargain-hunting among small stocks or cherry-picking cyclical equities in the steel or energy industries.

Abby Joseph Cohen

At least she's consistent. Cohen has been one of the few unflagging bulls on Wall Street in recent years, even as her colleagues fretted and fumed that stocks were becoming overvalued. Her mostly accurate forecasts won her a spot on Vanity Fair magazine's list of hottest fads in 1997.

As for the stock market's recent decline, Cohen predictably advised her flock of followers to stay the course. "Stocks are trading at undervalued levels," she wrote in a report to clients after Tuesday's 299-point drop in the Dow Jones industrial average.

Cohen told clients that the market was being too hard on

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itself, overreacting to the potential impact of the Asian financial crisis.

Looking at the second-quarter operating earnings of S&P 500 companies reported so far, Cohen said that some large write-offs by big-name players such as AT&T and General Motors were obscuring the good news: Earnings per share were up a respectable 5.6 percent.

It's the third time Cohen has stepped in to help stabilize stocks after a big decline. Analysts said her bullish comments helped stocks recover after the market's 554-point drop in October and again in June after a 207-point Dow selloff.

Michael K. Evans

Evans is taking the market's slide in stride. In fact, his attitude clearly is: "It's about time."

He said he believes that anyone who has been following the markets, the crises and political situations—not only in the United States and Japan but also elsewhere—should be aware that the market was clearly overvalued and due for a correction.

He added that, as an investor, he's certainly not overjoyed that many stocks are slipping. But he's not making any moves to change his own market position.

"Unless you're an expert at timing the market—and I haven't found one—this is not a good time to sell out," he said.

He suggests staying put because "the economy is fundamentally sound, and though I'm not pooh-poohing Asia, that's not going to hurt too much. It is not a good time to sell out. ... This is not 1987."

For investors who want to buy now or are seeking advice on what to buy when, he said, "I simply can't tell. My philosophy has been to watch the market in relation to the economy—and nothing is wrong with the economy right now. If the Fed were raising interest rates, if inflation was high, if the economy was bad," those issues would be the deciding factors, he said. "But those things aren't happening."

In other words, ride it out.

Kerry Fox

Fox said the Schwab philosophy guides its clients, educating them to the ups and downs, the risks and possibilities before they make their first investment. In that light, she says, "Our people don't worry" about the market's current fluctuations.

"Most of our investors—individuals with investments ranging from $2,500 to millions of dollars—understand long-term investment strategy. Their calls today tended to be queries about their portfolios—generally asking when would be a good time to revisit their portfolios, to take a look at what they have.

"Most of our investors know this (the market) is a marathon," an ongoing effort that will have difficulties and successes.

Fox said the people who invest with Schwab are very aware of the firm's guiding principles. There is no attempt to predict short-term movements, and the company will not pick specific stocks. Instead, "We stress knowing yourself, your fears, your comfort level with taking risks."

The company teaches a philosophy of long-term investment strategies; basics (have an emergency fund, retirement plan and commit to regular investing); diversified portfolios (stock, cash, bonds) to spread the risk; annual reviews of portfolios, particularly in view of personal changes (health, divorce, employment status among them).

Our clients "don't worry about the type of current changes," Fox said. "This is not '87.

"And, the market rebounded and closed 59 up."

Elaine Garzarelli

Garzarelli, who gained fame after she correctly predicted the stock market crash of 1987, has had a mixed record since then. Currently, she's optimistic.

Investors need to focus on interest rates, not stock prices, at this moment, she said Wednesday.

"I think we've had a correction in a bull market," she said of the recent selloff. "It shouldn't go any lower than it's gone, and you can buy any time here."

Why? "Interest rates are going to come down," she predicted. With inflation at just 1 percent and a federal budget surplus, Garzarelli looks for the yield on 10-year Treasury notes to drop by a full percentage point from its current level of 5.43 percent.

"We should be there now," she said.

Declining corporate profit growth will dampen corporate hiring and capital spending, taking the pressure off labor costs and interest rates, according to her scenario.

Garzarelli recommends interest-sensitive stocks, such as banks and financial-service companies. She also likes stocks associated with home-building, which benefits from lower mortgage rates. And she likes consumer stocks, such as tobacco companies and drug manufacturers, which likely will report better-than-average earnings growth in the next few quarters.

She would avoid commodity-linked stocks, such as oil companies and metals producers, as well as capital-equipment companies such as steelmakers and heavy machinery makers.

Fear of recession sparked the recent market slide, but the factors in place in 1990 before the last U.S. recession bear no relation to today, she said. At that time, oil prices were climbing, the Federal Reserve was tightening credit and the federal debt was booming.

"Nothing like that is in the cards," she said. The Dow Jones industrial average will recover to 9300 by the end of the year and reach 9700 in six to 12 months, she said, if interest rates decline as she expects.

David Mead

Mead said, "Any correction is long overdue," because of disappointing earnings and the continuing problems in Asia. But he emphasizes other factors affecting the current state of the market.

"In the second quarter, the 50 largest companies dominated the performance of the Standard & Poor's 500 index (companies such as Microsoft, Coca-Cola, IBM), meaning 9 out of 10 companies underperformed. You can look at the Dow and say the market is up, but it's really been a very thin slice of companies." He said that as Asia's problems have worsened, investors in other countries have been funneling investments to this nation—of course, to the best-known and biggest companies.

Mead said he didn't think the decline was over but added, "We don't expect mass destruction; the market may go down, but there will be no massive sell-off."

For clients who have much of their money in large holdings, trimming back might be advisable. "What to do with that cash? Look into cyclically oriented stock (Royal Dutch Petroleum, U.S. Steel, paper and forest product companies) that could become the next market leaders.

"The economy is good, so go after the ones that have been left behind. Look at the small- and mid-cap stocks. These companies have been decimated, but they may be doing better." He also said it could be time to look at the foreign sector.

Leo Melamed

The recent decline and turbulence in the equities markets is enough to convince Melamed that the long bull run is finally over. "This just confirms the fact the market has turned. I don't think we'll be seeing new highs," he said.

Small investors who have money to invest right now would be wise to park it in Treasury bills, guaranteeing their returns "until this turmoil is behind us or, at least, clarified," Melamed said.

He doesn't recommend selling stocks now after the falloff in prices. But he does think small investors with significant stock holdings should seriously consider lightening their load when the market rebounds.

"There's nothing wrong with taking profits on a rally. Even if you're wrong, you'll have the chance to buy it back at some later date," he said.

John Rogers

Rogers is a rare animal in the mutual fund industry: a bear. And he says the stock market's recent selloff is bearing him out. "This is the beginning of a real sea change. Stock prices were simply too high at a time when earnings were consistently less than expected," he said.

Still, Rogers isn't advising anyone to abandon the stock market and put their cash in safe but low-yielding money market funds. That's too dangerous, he says. "Just stay in through a lower-risk strategy," he advises.

He suggests bargain-hunting among small-company stocks, which already have seen prices fall 15 percent from their highs. "They're already half or two-thirds the way through the correction," Rogers said. "Those are the places where you'll have a chance at a safety net in this climate."

But beware of giant stocks that are selling at high price-to-earnings ratios. Their correction is still ahead, he warns.