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Publication: Asheville Citizen-Times

Day: MONDAY

Section: W

Page: 10

Keyword: COLUMNS, INVESTING, INVESTMENTS

Date: 01/24/2005

Edition: FINAL

Sectionname: WNC Business

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Peter Bernstein is among the most respected figures on Wall Street. As founder and president of Peter L. Bernstein Inc. -- established in 1973 as economic consultants to institutional investors and corporations around the world; first editor of the Journal of Portfolio Management; economics professor on the graduate faculty of the New School for Social Research in New York; and author of "Against the Gods: The Remarkable Story of Risk" -- he's known for advocating that investors stick to a strict asset allocation policy.

But in 2003, Bernstein put into words what many staunch buy-and-hold investors were beginning to accept. At a conference for institutional money managers, Bernstein expressed doubt that investors will be able to achieve respectable returns with a static portfolio.

"What if we can no longer be so confident that stocks are necessarily the best place to be in the long run," the Wall Street Journal quoted Bernstein as saying (from "Those Dirty Words: Market Timing. Prominent Strategist Bernstein Hints It's, Ahem, Time to 'Time'; Dismissing Conventional Wisdom," by Tom Lauricella, Aug. 27, 2003). "What if moving around more frequently is now a necessity rather than a matter of choice? I am talking about market timing -- dirty words."

"If we don't know what the future holds, why lock ourselves into a position for the indefinite future?"

Bernstein's comments were shocking words to Wall Street. To the mutual fund industry, which has long maintained that individual investors are best off with a buy-and-hold philosophy, his words were heresy.

Two years later, Bernstein has been joined by a growing crowd of former buy-and-hold advocates who are now turning to active management to bolster client returns.

"Painfully for a buy and hold investor to write, investors may have to adopt a more active trading stance in this environment to lock in gains," writes McDonald Financial Group in its 2005 investment outlook.

For more than 30 years, McDonald Financial Group has been presenting an annual economic and capital markets forecast. This year marks a dramatic change in the firm's investment philosophy as it states, "Sector and stock selection will be that much more important to overall returns. We would not be focused on indexing strategies."

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Behind this change in investment strategy is the widespread belief among financial professionals that broad market returns are unlikely to move into double digits in 2005 or perhaps for years to come.

Warren Buffett was among the early forecasters of lower market gains, pegging annual returns at 5 percent to 6 percent over the next five to 10 years. The McDonald Financial Group forecast for 2005 is slightly more optimistic, calling for a total return of 7 percent to 9 percent for the SP500 Index.

"Stocks in 2005 must deal with a slower pace of economic growth — which will translate into slower earnings growth," states the firm's forecast. Nor does the firm see much hope in the bond market, where it believes long-term yields are too low.

In addition to lower annual returns, many forecasts call for increased volatility or long periods of inaction followed by sudden drops or upward surges — conditions that add to the emotional drain of buy-and-hold investing.

So what is an active management — or market timing — strategy? An active management approach to investing looks to the economic climate and technical indicators — indicators based on mathematical relationships and actual price performance of a sector or individual stock — for buy and sell decisions. The investor's goal is to be positioned in assets or asset classes that are increasing in value and move out of those assets that are flat or declining in value.

This is a very different approach from a traditional diversified buy-and-hold strategy, where investors would actually sell positions increasing in value and buy underperforming assets in order to maintain a fixed portfolio allocation.

Warren Wall is president of Wall & Company Wealth Management, a registered investment advisory firm based in Asheville, N.C. Wall has been involved in the financial industry for more than 22 years and uses active investment strategies in the management of client assets.

the name of the column: WALL ON THE STREET

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Department: WNC BUSINESS
Docnumber: 927451
Source: STORY
Wordcount: 735

Docname: WALLONTHESTREET0124
Pubdate: 01/24/2005
Typist: MIKE DEMPSEY

1-Edit

Author: MIKE DEMPSEY
Status: Sent

Datatype: Text