

## Where should you put your money?

BY DAVID BRACKEN - [dbracken@newsobserver.com](mailto:dbracken@newsobserver.com)

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If your job over the past year required you to track the stock market on a daily basis, chances are you're ending the year with a queasy stomach and a sore neck.

This year has been characterized by wild daily fluctuations in the markets as investors reacted to various bits of good (Europe has solved its debt crisis!) and bad (Europe has not solved its debt crisis!) economic news.

But much like a roller coaster, the markets ended the year about where they started. The S&P 500 ended the year up 0.4 percent while the Dow Jones industrial average was up 5.5 percent.

To shed more light on what the next 12 months might look like, we turned to a handful of money managers and financial advisers in Charlotte and the Triangle.

Each answered a series of questions about investing strategies, economic indicators to watch in the months ahead and what they've learned from the global economic crisis.

Although it should go without saying, we'll say it anyway: None of this advice is foolproof. Investors should do their own research, stay diversified and assess their own appetite for risk.

### Isaac Green

Isaac Green is president, CEO and chief investment officer of Piedmont Investment Advisors, a Durham money management firm that specializes in core equity and fixed income management. The firm was established in August 2000 and has about \$2.1 billion in assets under management.

**Investing strategies:** Investment strategies to focus on in 2012 are:

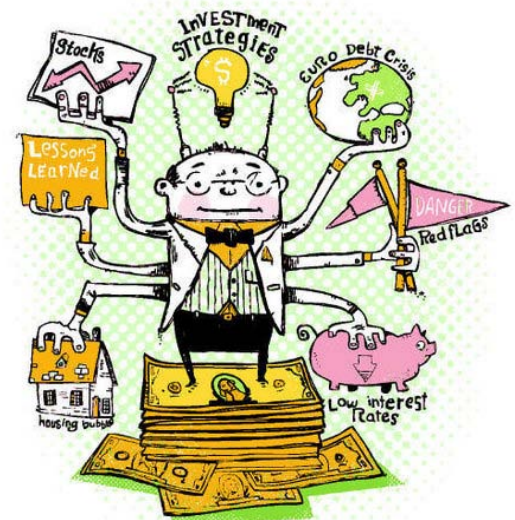
**Income:** Large cap companies with high dividend yield coupled with growing dividend pay-out ratios.

**Growth:** Secular growth companies which are experiencing specialized opportunities of increasing addressable market for their products - for example in retailing and health care. Reasonable valuations and strong earnings achievability are the keys.

**Less commodity exposure:** De-emphasizing exposure to

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infrastructure intensive "raw" commodities like steel and copper.

Outlook for stocks: 2012 should again be a struggle between relatively stronger domestic fundamentals and global macro risks. It is likely that equities struggle in the face of the European recession currently being forecast by market economists. U.S. growth has been rather resilient in 2011 despite multiple negative shocks. We think this persistence will carry over into 2012 if there are no contagion effects from the Euro crisis. .

Top stock picks or other investments: Maintaining a defensive stance entering 2012 until we see tangible signs of a resumption in systematic growth.

CVS Caremark (CVS): Benefits from competitive disruptions in the short term and is exposed to long term growth trends within healthcare. The company recently raised its dividend for the second time this year, continues to repurchase shares, and currently carries about an 8.5 to 9.0 percent free cash flow yield.

Bristol-Meyers Squibb (BMY): Carries a stable dividend yield and has several promising recently approved and pipeline drugs that should reaccelerate earnings growth in the out years.

Microsoft (MSFT): Offers attractive risk and return in light of upcoming product cycle in Windows 8 and its integration with the mobile operating system, strong cloud based infrastructure offerings and growth in consumer products like X-box & Kinect. It also offers an attractive dividend yield.

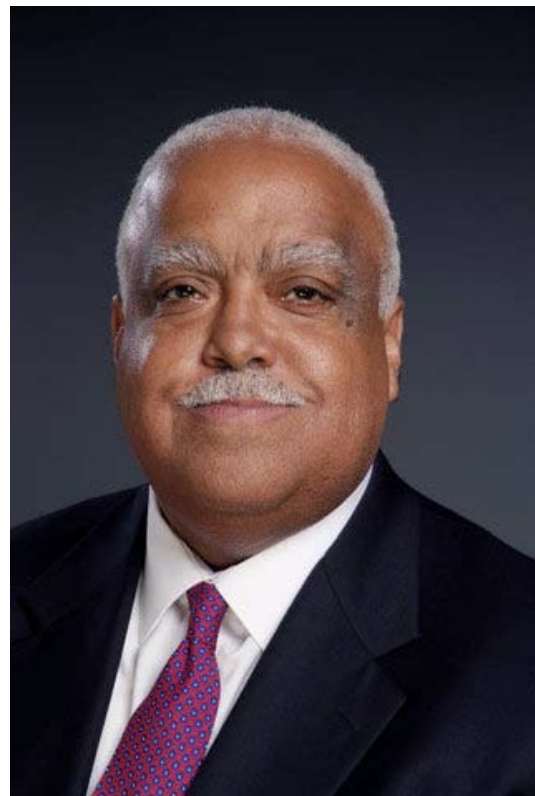
Red flags: Significant breakdown of policy leading to a default of an European nation that destabilizes the Euro banking sector; surge in long-term U.S. interest rates; outbreak of inflation driven by a weak U.S. dollar

Key economic indicators: Credit metrics, long bond yields;



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industrial production; unemployment rate; inflation indicators like Consumer Price Index.

Advice for clients nervous about Europe and domestic political uncertainty: Continue to invest in companies with growing dividends and ones that maintain reasonable (not exaggerated) payout ratios.

Best advice for investing in low interest rate environment: Invest in companies with strong dividend yield and those that exhibit earnings growth.

## Janet Fox

Janet Fox is president of ACH Investment Group in Raleigh. ACH manages more than \$70 million in brokerage and advisory assets through LPL Financial.

Investing strategies: Having a well-diversified portfolio seeks to reduce risk and volatility. This entails investing in a wide range of equity sectors, fixed income, alternative investments and cash. By investing in different asset classes, you can try to minimize and reduce risk during uncertain market conditions. There is no guarantee that a diversified portfolio will enhance overall returns or out-perform a nondiversified portfolio. Diversification does not ensure against market risk.

Outlook for stocks: We might continue to see some volatility during the first half of the year with stabilization and improvement during the second half. There could be an increase in GDP next year that could average between 1.5 percent and 2.5 percent. The S&P could finish 2012 with mid-single digit returns.

Top stock picks or other investments: Good quality dividend-paying stocks remain good investments. Some of these stocks are undervalued and others are not. However, in both cases, the dividends can increase your income potential in a low interest rate environment. In our opinion, large U.S. multi-national companies have good growth potential not only in the United States, but also in the emerging markets.

Red flags: The U.S. housing market is still a problem. It could be at least two more years before it shows signs of turning around. The European debt crisis has to some degree become a chronic problem. Our markets can probably deal with this so long as the situation does not deteriorate. China has been experiencing vast building and construction. This real estate cannot remain empty without a negative impact on their economy at some point.

Key economic indicators: Unemployment data, consumer confidence and, as we head toward the 2012 election, the political uncertainty that can have an impact on the markets.

Advice for nervous clients: Try to look at the big picture and your



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time horizon. Again, consider a good asset allocation strategy that is diversified with many different asset classes. Consider short duration bonds with shorter maturities. These can have less volatility when principal might be at risk. Principal risk can pose a problem during times when interest rates are beginning to rise. Other bonds also may be useful as diversification tools. High yield corporate bonds and municipal bonds can provide dividends above current rates found in other fixed income investments.

Advice for a low interest-rate environment: This low interest rate environment may start to change in 2013. That is not very far in the future when we are discussing investments. High-yield corporate bonds and municipal bonds can be used for additional income during this time of depressed interest rates. The default rate of corporate bonds has declined this year and even if that increases slightly next year, the anticipated default rate is still relatively low compared to the current price levels of the bonds. Short duration bonds also have a higher yield than some other asset classes. Good quality dividend-paying stocks can also increase income during these lower interest rate periods of time. Utility stocks and large cap multinational stocks can provide additional investment income.



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## **Himanshu Shah**

Himanshu Shah manages \$275 million as president and chief investment officer of Shah Capital in Raleigh.

Investing strategies: Buy well managed companies whose stock prices are cheap or reasonable relative to earnings growth and you will be rewarded over time.

Outlook for stocks: Overall global equities will perform well with small and mid-cap emerging market stocks leading the pack. Large cap momentum names can disappoint and probably not the top priority especially for those who remember the technology, media, telecom bubble in 2000.

Top stock picks or other investments: With fiscal and monetary easing in China to sustain 7 percent to 8 percent economic growth, U.S. and Hong Kong-listed Chinese stocks which are trading at record low valuations, will significantly outperform. Themes we find attractive include clean energy, especially solar power due to competitive costs compared to fossil fuels, increasing world energy demands, and industry consolidation.

Red flags: Continued delay of fiscal responsibility from the United States, and European wrangling over further fiscal integration.

Key economic indicators: Commodity prices, lower interest rates as well as loan/deposit ratio in China, India and Brazil. New home starts and the unemployment rate in the United States.

Advice for clients nervous about Europe and domestic political uncertainty: Last we checked, the world is not coming to an end. Certainly, western nations have some difficult and unpopular decisions to make (and they will be made). However, the growth engine for the next five, 10, 20 years will be in Asia, Africa and South America, which is where they should focus their attention. As always, pay careful attention to currency and government stability.

## Chip Hymiller

Chip Hymiller is a principal of Beacon Financial Strategies, an independent financial planning and investment firm in Raleigh.

Investing strategies: Maintain a diversified investment approach using low cost index funds.

Outlook for stocks: While stock valuations are in an acceptable range, we believe that investment returns will likely be muted until there is some clarity about how the European Union will manage the debt crisis. Overall, we expect large cap multinational stocks to outperform bonds and cash.

Top stock picks or other investments: We believe that all investors should have some exposure to stocks of multinational companies that have a reasonable dividend yield. A low cost and tax-efficient way to gain exposure to these types of companies is through the Vanguard Dividend Appreciation Index ETF (VIG). For those investors who prefer actively managed mutual funds, we like the IVA Worldwide fund (IVWAX). This mutual fund is managed by two veteran managers that employ a "go anywhere" investment approach - investing in a variety of stocks, bonds, currencies and commodities. Conservative investors should consider I Bonds (the "I" stands for inflation), a type of savings bond. Interest earned on I Bonds is tax deferred and the rate earned adjusts every six months with inflation. I Bonds are safe, highly liquid (after 12 months), and have a current interest rate of 3.06 percent.

Red flags: Rising yields on German government bonds.

Key indicators: The price of oil and the housing market.

Advice for nervous clients : Successful investors have the ability to ignore the "noise" and capitalize on a crisis by disregarding the crowd. Making investment decisions that are fueled by fear or greed has never been a productive investment strategy.

Best advice for low interest rate environment: Bond investors should pay close attention to the expense ratios of their bond mutual funds. Those bond funds with high internal expenses are very likely to have low returns in the coming years. For investors who do not require access to their money for at least 12 months, I Bonds may be an alternative. Retirees who expect to make predictable withdrawals from their portfolio should consider investing in high quality individual bonds with a maturity schedule that matches their withdrawal needs.

## Mark W. Yusko

Mark W. Yusko manages \$9 billion as CEO and chief investment officer of Morgan Creek Capital Management in Chapel Hill.

Investing strategies: Focus on lowering the volatility of your portfolio. Do it through diversification and by focusing on higher quality assets. If you're going to own fixed-income, own high-quality. If you're going to own equities, own quality but also own where there's growth. You really need to be in the developing or emerging markets where growth is high and they don't have the debt problems and they have inflation instead of deflation.

Outlook for stocks: I think Japan, Europe and the United States are going to struggle. You'll be lucky to make a positive return in any of those markets. In the developing world I think there are a number of places where you could make money. But the risks are there too in that many of those markets rely at least for some of their exports on these other markets. I'm hopeful we might see flat returns in the developed world and low single-digit returns in the developing world.

Top stock picks or other investments: Gold, Long Treasuries (TLT), health care companies and companies that are consumer staples. High-quality technology companies with lots of cash and low debt.

Red Flags: Deflation in the United States, Japan and Europe. Rising inflation in India and Brazil. Declining Chinese

production levels. Worsening employment picture.

Key economic indicators: European growth and U.S. economic growth in first and second quarter.

Advice for nervous clients : People have been trying to catch the falling knife in European financials. I think that's just a terrible idea. I would be under weight in Europe in the short-term and if you feel you have to own Europe try to own the higher quality companies (Volkswagen, Mercedes, BMW and Siemens).

Advice for a low-interest rate environment: High-yield bonds. Or if you can get high dividend paying stocks that pay four percent or five percent that's probably a better plan today because some of those companies have very strong balance sheets even better than the balance sheets of high-yield bond issuers. If you understand what you're buying, taking a little bit of credit risk is not a bad idea as long as you stay diversified.