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In volatile market, some see bargains, others, pitfalls

Some investors fleeing stocks; companies, executives buying back

By [Hanah Cho](#) and Liz F. Kay, The Baltimore Sun

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As the Dow took another 400-point tumble Thursday, Baltimore money manager David Stepherson found himself talking one client out of selling everything.

"I advised him that it would not be a good idea because our view of things is that this is going to be OK, and he ought to be thinking about what to buy," said Stepherson, who is also the chief investment officer at Hardesty Capital Management in Baltimore.

Still: "At the end of the day, it's the clients' money, and they have to sleep at night."

Ultimately, Stepherson's client agreed to unload only a quarter of his equity holdings — and to revisit his portfolio weekly.

Investors traditionally have approached bear markets with an eye for bargains. But market volatility — and fresh memories of the 2008 crash — have dampened the enthusiasm of many.

As Stepherson put it, investors such as his client, who is near retirement, are in "safety mode."

Investors continue to worry about another recession in the United States and debt in Europe. The Dow Jones industrial average closed last week at 10,817 after shedding 452 points over the five trading days.

It was the fourth straight week of losses for the stock market, which plunged Thursday after a few days of calm.

New economic data last week dimmed recovery hopes. Consumer prices climbed 0.5 percent in July, the fastest rate in four months, while more workers than expected claimed new jobless benefits last week.

The Philadelphia Federal Reserve Bank's business outlook index fell to minus-30.7 in August, the lowest since March 2009, when the economy was in recession.

"The real issue the market's struggling with here is the increased potential for another economic downturn," said John P. Hussman, the Ellicott City money manager who runs the Hussman Strategic Growth mutual fund. "From the whole constellation of data that we're seeing, we haven't observed that constellation except during the recession or just prior to that. The odds are more challenging here."

Some investors are finding opportunities in the up-and-down market. Mutual fund managers are snatching up stocks in sectors that are poised to grow in a down economy, while some companies and corporate leaders are taking advantage of depressed prices to buy back shares.

Chip Morris is maxing out his 401(k) contributions to buy up stocks he describes as "bargains."

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"I'm buying like crazy," Morris said, who says at 55 he has some time to wait for a recovery. "Everything's a bargain."

But Morris, who splits his time between Annapolis and [Ocean City](#), is not putting all his money into one basket. When the debt ceiling debate began two months ago, he decided to go into defensive mode, just as he had done in 2007.

"I knew the markets were going to take a hit," said Morris, who works in the insurance industry.

So he rolled much of his 401(k) money into more stable funds, such as money markets.

"The truth is you've got to be a little smarter as you get older," Morris said. "You try to protect your assets as best you can."

Some investors are shunning the stock market altogether — at least for now.

Money manager Thomas Geier dumped almost all the stocks from his firm's Geier Strategic Total Return mutual fund this month after Standard & Poor's downgraded the U.S. government's credit.

The \$30 million conservative growth fund is now invested in cash and bonds with some gold and silver equities. The fund, which was launched in December 2010, had held about 25 percent of its portfolio in stocks.

"We are in protective mode right now," said Geier, who is also vice president of Geier Financial Group in Marriottsville, which manages \$180 million in assets. "We're just very nervous about what's happening in Europe with the banks and, from our standpoint, we don't want to be optimistic and say they'll figure it out and get it straightened out."

Unlike a more aggressive fund that might see buying opportunities in, say, the bank stocks that were pummeled Thursday, the Geier fund "can't take the risk."

"We'll wait until the smoke clears and wait until things get more stable and the volatility calms down before we'll start venturing back in again," Geier said.

Sell orders at Baltimore brokerage firm Chapin Davis have picked up in recent weeks, President Bruce Alderman said, though the volume is nowhere near what it was during the financial crisis in 2008.

Financial advisers have had to do some hand-holding, Alderman said, talking clients out of selling all their stocks.

On Friday, Michael Dougherty, vice president of investments at Chapin Davis, got a call from one longtime client who wanted to dump all his stocks.

"Really, I could hear in his voice that the market had made him without any hope for the short-term outlook, and understandably so," Dougherty said. "I told him, 'You're not wrong at all to feel that way. You wouldn't be human if you didn't feel that way.'"

The client ended up selling a third of his stocks, putting the cash into money market funds. The remaining stock portfolio was in good shape, Dougherty said.

While money managers such as Stepherson see the stock market as "tremendously attractive," it can be difficult to persuade investors to buy when they have memories of 2008 fresh in their minds.

"When people lose half their money and it only happened a couple of years ago, they don't want to do that again," he said.

While Hardesty Capital, which manages \$750 million in assets, has shed some stocks in recent days, Stepherson said it has been "selectively" picking up stocks in companies such as Abbott Laboratories and Hewlett-Packard.

Not everyone believes the market is appealing.

Roger Staiger, a former fund manager who teaches finance at the Johns Hopkins University's Carey School of Business,

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said the market has been overvalued since 2009.

"It's selling time," Staiger said.

Perhaps the investors most optimistic about the market are corporations and their executives.

Corporate buybacks have increased this year, with \$324 billion in authorizations as of July, according to Rob Leiphart, an analyst for Birinyi Associates. That's a 46 percent increase in the value of authorizations compared to that time last year.

Olney-based Sandy Spring Bancorp announced a buyback program Friday to repurchase up to 730,000 shares. It described the move as a response to the recent market volatility.

Legg Mason Inc. has bought \$645 million of its shares in the past year under a \$1 billion buyback plan. The Baltimore money manager plans to repurchase another \$200 million in shares during the current fiscal year.

Leiphart said the buyback trend shows that "management's bullish."

Many of the companies that have announced buyback authorizations have said they believe their stock is undervalued.

"I don't recall ever seeing that to this magnitude before," Leiphart said.

Meanwhile, buying among corporate leaders is up.

When market volatility picked up earlier this month after the S&P downgrade, there was an almost eightfold increase in buying by company officers and directors over two weeks and a 16-fold increase over three weeks, according to Vickers Weekly Insider.

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