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Your Money: The new norm? Words of advice in volatile times

By Erin E. Arvedlund, August 16, 2011



Whoa! That felt absolutely sickening.

Investors panicked last week, with the Dow Jones industrial average either up, or down, 400 points for four consecutive days. It was a historic seesaw.

The unprecedented volatility in stocks is probably going to stick around at least until the end of 2011. That means it might be better to focus more on high-yielding bonds, high-dividend-yielding companies, and precious metals, say the smart money folks.

Long term, this kind of volatility could be the norm until the federal government either stops meddling in the capital markets (the Federal Reserve promised no new

interest-rate hikes until 2013) or until Congress passes unpopular deficit-cutting measures. What odds would you put on that?

The source of the volatility? America's economy is taking one body blow after another: oil prices, Japan, Europe's debt problems, the U.S. debt downgrade, and sky-high unemployment.

So what are some of the experts saying and advising?

"The stock market has reached a breaking point with all these coming together. There's a negative feedback loop. Weakness in the market makes consumers less confident and they hold back on spending," Ethan Harris, head of developed-markets economic research at Bank of America Merrill Lynch, told Bloomberg News.

"There isn't any clear savior. The Fed can buy some more Treasuries. But they can't save us from the mistakes in the rest of Washington."

The University of Michigan consumer-sentiment numbers confirmed the feedback loop: July's number of 63.7 dropped to 54.9 in August, lower than in 1980, back when interest rates were pushing 20 percent.

What to do?

Don't let rallies soothe you, advises Eric Sprott, of Sprott Asset Management, a Toronto hedge fund.

"Don't fall in love with a one-day rally in the market - because each day you have to deal with the economic and financial reality of the next day," Sprott said, noting employment or other disappointing data. Sprott personally holds 80 percent of his own portfolio in precious metals.

In fixed income, Bill Gross, head of the Pacific Investment Management Co. L.L.C. (PIMCO), the giant bond shop in Newport Beach, Calif., recommends picking the lesser among evils. Investors should buy assets of

countries with "cleaner dirty shirts" and higher real interest rates, including Canada, Mexico, Brazil, and Germany, wrote Gross in his latest bulletin to investors.

"If the Treasury is borrowing money from you or PIMCO at 0.05 percent for the next six months and CPI inflation is averaging 3 percent, then lenders/savers are being shortchanged beyond even rather egregious historical examples," Gross said. "[Inflation] puts more money in government coffers to pay their bills and less money in your pocket to pay yours."

Jeremy Grantham, the longtime investor who helped found Grantham, Mayo, Van Otterloo & Co. L.L.C. in Boston, wrote this month that he sees the S&P 500 index falling to 950, down from 1,178 as of the close on Friday.

"To this point, there has never been such a weak and slow recovery from a steep decline," Grantham said. "The revised numbers show that at the 2009 low we had by far the biggest drawdown in GDP (minus 5.1 percent) since the Great Depression. The reasons that I thought it would take at least seven years to get back to normal are still mostly in place."

He advises the long-termers out there to invest in forestry and farmland, resources in the ground such as hydrocarbons, metals, and fertilizer.

There are some tiny bright spots. Business lending appears to have turned upward.

Sageworks Inc. CEO Brian Hamilton noted that commercial and industrial loan volume in the United States fell significantly, by 23 percent between October 2008 and October 2010.

During the last eight months, however, commercial and industrial loan volume has increased by 5 percent, Hamilton notes.

For the full article featuring [Sageworks](#)' insights and private company data, please visit The Philadelphia Inquirer – [Your Money: The new norm? Words of advice in volatile time.](#)