The Death of Equities Seems Exaggerated

CNBC, CNBC.COM, PERSONAL FINANCE, ECONOMY, NEW YORK TIMES, NYTIMES, NYT, STOCKS, BONDS, MARKET, FINANCIAL, ADVISER
The New York Times| 15 Nov 2012 | 09:58 AM ET

The clients of Samantha Fraelich's financial planning practice in Chevy Chase, Md., include lawyers, business owners, union tradesmen and even a couple of professional athletes. But regardless of their age, profession or income bracket, nearly all of them are asking her the same thing these days.

"'Is 2008 going to happen again? I can't lose another 30 or 40 percent in the market.' That's the first thing out of their mouths," she said. Her clients want bulletproof stock portfolios, and she tells them that's just not possible.

Yet even after hearing that news, Ms. Fraelich's clients are still buying stocks. They want to be somewhat defensive, she says, but they have concluded that stocks beat the alternative of seeing their nest eggs go nowhere.

The conventional wisdom among many who work on or follow Wall Street is that generations of Americans have given up on stocks. As evidence of this reputed hatred, market experts point to the low trading volumes on the nation's stock exchanges and the nearly $440 billion that investors have taken out of stock mutual funds since the beginning of 2008.

Instead, Americans are supposedly saving for retirement or paying for their children's college tuition by buying bonds, bond mutual funds or so-called alternative assets. These can include a mix of investments like commodities, futures funds, hedge funds, farmland and forests.

But a look at the big picture shows that Americans haven't really taken much out of stocks at all. There is more than $5.7 trillion in stock mutual funds alone, according to the Investment Company Institute, an industry trade group that tracks mutual fund dollars. That's more than the total in bond and money market funds combined.

In addition, nearly $880 billion is invested in stock-centric exchange-traded funds. These are bundles of stocks packaged into a single product that can be bought or sold like any stock. No one knows what percentage of that sum is owned by hedge funds or other financial institutions, but individual investors probably own at least a couple of hundred billion dollars' worth, nearly equaling or perhaps exceeding the amount people have taken out of stock mutual funds.

So for all the talk that Wall Street chicanery or the market's gyrations have killed investors' appetite for equities, Americans' commitment to stocks has been remarkably strong.

What is still driving investors is the belief that most of them will have to rely on the stock market if they want to retire comfortably. Guaranteed pensions are, for most people under 40, a pipe dream.

Relying on the market can be scary. After all, these days you can follow your portfolio's fluctuations in real time on your smartphone. Even though the Standard & Poor's 500-stock index has risen about 25 percent since early 2010, **about 40 percent of individual investors are bearish**, believing prices will fall in the next six months, according to the American Association of Individual Investors.

Fortunately, many financial advisers say, it's not that difficult for someone far from retirement to set up a portfolio that, while not bulletproof, at least has a good chance of growing significantly over time.

Stocks aren't particularly expensive on a valuation basis. Wall Street tends to value a company's stock on a multiple of its future expected profits. These days, stocks, as a group, are valued at about 15 times expected 2012 profits, a figure in line with long-term averages. International stocks, beaten down by worries about the European and Chinese economies, are even cheaper.

Stocks are also paying out a decent amount of money. More than 400 of the S.& P. 500 companies are paying a dividend in one form or another, a number not seen since 1999. Predictably profitable companies like Johnson & Johnson, Cisco and Intel are all paying 3 percent or more.

Diversification across stock sizes, sectors and countries is essential, advisers say. The likelihood of all stocks of all shapes and sizes falling in unison as they did in 2008 is pretty low.

It took Chris Murphy, 40, a Manhattan Beach, Calif., camera operator, a little time to be persuaded of the merits of diversifying, especially because it meant he would have to sell some of his Apple stock. But, on the recommendation of his adviser, he did sell some Apple and bought Verizon, a less volatile stock that pays a higher dividend. "I've decreased our risk in case Apple tanks," Mr. Murphy said.

Relying on stocks, many advisers say, is not only beneficial but necessary because of how low interest rates are. A one-year bank certificate of deposit is paying, on average, 0.8 percent a year. Money market accounts pay even less. Ten-year Treasury bonds are paying just over 1.6 percent, less than the annual rate of inflation. If inflation goes up, it will eat away at the buying power of the interest the bonds pay.

"If your time frame is 10 years or more," said Adam B. Scott, founder of Argyle Capital Partners, a financial adviser in Los Angeles, "you're better off in stocks."

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This story originally appeared in The New York Times

URL: http://www.cnbc.com/id/49825294/

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