Tennessean

Estimated printed pages: 3

April 1, 2007
Section: BUSINESS
Edition: PRINT
Page: 1E

Broad diversification will weather storm, advisers say
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An investor in stocks for 20 years, John DeMoor didn't panic as his portfolio fell sharply on Feb. 27 amid the biggest one-day plunge for the Dow Jones industrials in more than five years.

Since then, the Lebanon resident known in the entertainment industry as Johnny Counterfit has stayed pat, watching a still-volatile market.

"Barring a U.S. or world catastrophe, I think that the market has corrected and I'm just about ready to start buying again," said DeMoor, who makes his living as a comedian, impressionist and country crooner.

DeMoor attributes his calm confidence to diversifying his holdings with a selection of stocks across various industries, adding that his portfolio as of last week was back up roughly 12.5 percent for the year despite all the gyrations on Wall Street.

But DeMoor has a hefty 98 percent of his portfolio in stocks, with 2 percent in bonds and foreign currencies. At least one financial adviser thinks Johnny could do better. Financial adviser Stephen Hammers of Compass Advisory Group in Brentwood said investors would be wise to have more than just a basic split between stocks and bonds.

"The key to diversification is to have more than stocks or bonds," Hammers said, listing real estate funds, commodities, hedge funds and other investments as other options. "When the market fell, our average portfolio fell maybe 1 percent."

"If the stock market goes up 15 percent, we'll probably go up 12 percent, but when the stock market goes down 10 percent, we'll probably go down 2 or 3 percent. The more consistent returns you have, the more money you earn."

Diversify for protection

Hammers said a broader diversification is critical in today's environment as the markets face economic and political uncertainties daily from worries over sour subprime mortgage loans to tensions with Iran. "There's no promising expectations whatever related to stocks," he said.

Choppy markets should be a time for investors to review their investments and reassess risk, said Ed Clissold, senior global analyst at Ned Davis Research Inc. in Venice, Fla. Don Hays, president of Brentwood-based money manager Hays Advisory LLC, sees volatility as a natural part of investing. "Every good buying opportunity in history came on a volatile market environment," he said. "... If you can't stand the heat, go to the bomb shelter and bury your money."

DeMoor, who focuses on the cash flows and debt loads of his stock picks, has yet to dabble in commodities or some other alternatives, opting to stick with what he knows.

Even with individual stocks, several experts said investors should remain cautious. "It's not as easy as your local broker might want you to believe," said David Trainer, the president of New Constructs LLC, a Nashville-based independent research firm. "There is no substitute for doing good research and doing your due diligence to make sure you're making sound investment decisions."

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What financial analysts and planners say

Stephen Hammers

Managing partner, Compass Advisory Group in Brentwood

"Uncertainty creates a lot of volatility, and we're seeing more and more of that uncertainty. But I don't see the declines we saw a few years ago in 2000 and 2002. The markets do need a break every once in a while. That's why diversification in more than stocks is appropriate."

David Trainer

President of New Constructs, independent research firm in Nashville

"If you're going to be in stocks, you have to be careful. We think the market is fully priced. The extremely easy financing conditions that we see today are not sustainable, and when long term-rates become higher than short-term rates, that's going to be a real shock to the market."

Ed Clissold

Senior global analyst, Ned Davis Research Inc. in Venice, Fla.

"The big question is: Will the subprime loan problem spill over to the economy, which will mean a slowdown, which would slow earnings growth. If those problems can be contained to the subprime sector, we would not expect it to have enough impact on growth to cause a recession or a sharper increase in volatility."

Keith Newcomb

Financial planner, Full Life Financial in Nashville

"We've probably got more choppiness ahead for the next several weeks. ... Where I'm finding value includes energy, health care and a number of international areas and commodities. I would stay clear in the near-term of India, and I think China is ... long-term very attractive, but near-term a high-risk environment."