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On the Street by Elizabeth Trotta Published June 29, 2010

Investing Advice for the Second Half of 2010

With two trading days left in the first half of 2010, many investors have begun seeking advice about what changes to make in their portfolios in the second half of the year. Perhaps not surprisingly, what they hear has a great deal to do with who they ask, but most advisers are flashing a yellow light, instructing investors to be cautious and brace for more bouts of volatility as the recovery progresses.

The economy remains a concern among many advisers. With the unemployment rate lingering above 9% and the first-quarter gross domestic product recently revised down to 2.7% from 3%, the pace of the recovery has been called into question.

Investors have responded by curbing their risk. In May, they pulled more money out of funds than they put into them. Among the 25 largest funds, only the bond giant PIMCO saw its assets increase last month, according to the industry research firm Financial Research Corporation.

Still, advisers are divided over how much worse the market for stocks will get, and they're tweaking their strategies to reflect those differences. Here are three takes on what to consider when making portfolio changes heading into the second half of the year.

Beware of beta

"We're not so much bearish, but we feel there's less upside than there was before," says Keith Amburgey, an advisor with Rutherford Asset Planning.

Some investors might consider a move to a fixed-income asset like a bond or a certificate of deposit, but because yields are so low, they also want to have money in stocks, Amburgey says. He is more worried about deflation than inflation; he's not concerned about rising rates in the near term, but when they do go up they could do so rapidly, he says.

As an alternative to bonds, he is steering clients toward investing in companies that have "strong, stable, relatively boring earnings history," so that if the stock market falls, they are likely to suffer less. He points to companies like **Procter & Gamble** (*PG*[1]), **Johnson & Johnson** (*JNJ*[2]), **Wal-Mart** (*WMT*[3]) and **Exxon Mobil** (*XOM*[4]), "reflecting the view that we're going to have a growing but relatively slow-growing economy as we wrestle with too much debt and deleveraging the economy," he says. Amburgey is turning toward funds that have a similar mentality, such as **Forester Value** (*FVALX*[5]), he says.

For investors seeking the safety of bonds, he's looking at floating rate paper or bank loans, such as **Fidelity Advisor Floating Rate** (*FFRIX*[6]). Unlike other bonds, or fixed-rate bonds, they won't go down in value when rates rise.

Find the fence

Investors don't necessarily need to make any significant tactical changes, but they might do well to consider dampening volatility and making sure they're not risking their living money, says Adam Leone, an adviser with Modera Wealth Management.

The firm used to have an internal cap of 5% allocation to market-neutral investments, but has increased that to 10% as relatively new products are starting to gain a track record. Three of these products that Modera has steered clients toward include **Highbridge Statistical Market Neutral Fund** (*HSKSX*[7]), **Rydex/SGI Managed Future Strategy Fund** (*RYMFX*[8]) and **Absolute Strategies Fund** (*ASFIX*[9]). Leone describes these products, which appeal more in a low interest rate environment, as a way to sit on the fence in the middle without a dramatic amount of interest rate risk or equity risk – something in between the two. Essentially, they aren't balanced funds, but they're on the risk-return spectrum "somewhere between a stock and a bond."

For fixed income, Leone says he has more of an intermediate-term bias, vs. a short-term bias last year, based on the shape of the yield curve. Theoretically, investors could get hurt more as inflation spikes and rates go up (and bond prices come down). But "based on the tradeoff right now, you should be compensated based on more yield until then," he says, adding that this is true across corporate, municipal and Treasury bonds.

Leone is also encouraging clients to keep some living expenses out of the market and plan their withdrawal needs over the next three to five years. "We're not doing this, per se, because you need this money next year; it's part of the long-term diversified portfolio," he says. "The money you need shouldn't be at risk in the market; we've always said it, but clients are much more receptive to it now."

Put a toe in

"The positive thing is we will see [economic] growth," says Rob Hackel, chief operating officer at R.F. Lafferty & Co. and a board member of the National Association of Independent Broker Dealers. "The question is how much we're going to have."

Rather than fixed income, Hackel is steering clients toward dividend-paying stocks and exchange-traded funds, along with consumer non-cyclicals. For instance, he's setting aside technology stocks for stocks like **Colgate-Palmolive** (*CL*[10]) and **Clorox** (*CLX*[11]), adding that "there's less volatility and they pay dividends."

With a conservative approach, clients might miss the upside, but they'll also miss the opportunity costs which can be significant, he says. He's not advocating investors stay away completely, rather that they "take a toe and put it in."

Although a lot of the leading indicators are hitting bottoms, some are starting to move up, he says. Specifically, Hackel is watching for the price of copper to rise and hold. It will be "a tell-tale sign that the economy is on secure footing," he says.

[1] http://www.smartmoney.com/quote/PG/
[2] http://www.smartmoney.com/quote/JNJ/
[3] http://www.smartmoney.com/quote/WMT/
[4] http://www.smartmoney.com/quote/XOM/
[5] http://www.smartmoney.com/quote/FVALX/
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