



Q3 REPORT: What Colorado experts are saying

By James Paton

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The third quarter is over, and the financial world looks dramatically different. There undoubtedly will be more drama to come in the final three months of 2008.

The *Rocky* asked investment experts in Colorado to make sense of the financial crisis, to look ahead and to offer a little advice.

The panel

- * **Peter Tedstrom**, partner, Brown & Tedstrom
- * **Joseph Janiczek**, chairman, Janiczek & Co.
- * **Fred Taylor**, principal, Northstar Investment Advisors
- * **Gregory Anderson**, CEO, GRAnderson Wealth Management
- * **John Goltermann**, senior vice president, Obermeyer Asset Management

What now?

Tedstrom: The bailout is unpopular with many taxpayers. Having failed to pass this time, it appears that (members of Congress) will try to get those who voted against the plan to change their votes. If this doesn't work, the bill may have to be seriously reworked.

Janiczek: We have unresolved dangers, weaknesses and complexities in the credit markets. A domino effect is causing the current banking failures, credit dysfunctions and market price volatility. Our government leaders must put together the very best infrastructure solutions and regulation adjustments that will stabilize the situation.

Taylor: Either Congress comes to their collective senses and passes some form of this mortgage rescue bill this week to help alleviate the liquidity crisis in the fixed-income markets and calm the stock markets or we will see a lot more 777-point down days on the Dow and a complete meltdown in the credit markets.

Anderson: Providing that there is a successful bailout plan, we should begin to see some growth in the economy. The banks aren't lending to each other, and a bailout should loosen up credit and provide opportunities for housing and businesses. Without a plan, we'll see continued volatility of the market downward. I think we could see the Dow at 8,000.

Goltermann: It is likely that some compromise package will be passed. If house prices stabilize and income and employment stay firm, it may work out. But because housing affordability remains low relative to income, it could take a long time. In the near term, the hoped-for effect is a loosening of credit markets.

Did the House of Representatives understand what it was doing Monday when it rejected the bailout package? Did they do the right thing?

Tedstrom: While these deeply troubled financial institutions are few, they provide a huge amount of lending, securities issuance, trading, clearing, custody and other functions. This is absolutely essential for the economy's operation. To prevent a deeper recession, the rescue is a good idea. On the con side, it could turn into a "let's bail out everybody" at the expense of the vast majority of homeowners who pay their mortgages on time.

Janiczek: It is their job to pass the very best rescue plan they can in a short period of time. If they felt like a better plan was possible, they did the right thing by not passing the plan on Monday. I'd rather they took more time to do it right than pass a poorly designed rescue package. In the meantime, the weakest of businesses and individuals relying on credit or stable market prices will be vulnerable.

Taylor: The 228 members of the House of Representatives who voted "no" have no clue as to how the credit and stock markets work. Paulson, Bernanke and Bush did a horrible job of explaining in simple terms what the catastrophic consequences of not passing this bill will be for Main Street. If the credit markets can't function properly, hospitals, public schools, airports, and small business cannot get access to capital for short-term financing needs and everybody will suffer.

Anderson: They weren't thinking of the repercussions of their failure to come up with a solution. You would expect that the timing of this crisis, coming as it does in an election year, would be beneficial in that it would prompt politicians to try to make heroes of themselves. Instead, it had the reverse, and perverse, effect.

Goltermann: I think that because effective leadership in the House is lacking, and most don't understand economics and finance very well, that they were not prepared to step up. Also, because of a widespread perception that the only beneficiaries would be Wall Street execs, there was a mass repudiation of the proposal. There are many viable alternatives to what was put forth that would probably be more effective and don't involve this type of risk transfer.

What's really so bad about letting all these over- leveraged institutions fail?

Tedstrom: Getting those debts off their books should bolster those companies' balance sheets, making them more inclined to lend and easing one of the biggest road blocks in a national credit crisis. If the plan works, the thinking goes, it would help lift a major weight off the national economy, which is already sputtering.

Janiczek: I personally believe those who poorly managed their business should pay the price but do believe the government should work to minimize the domino effect as well as to take corrective action where regulations aggravated the problem.

Taylor: Nothing is wrong with letting overleveraged institutions fail. However, the Federal Reserve and Congress need to keep the general public and the rest of the world from panicking. By not solving this credit crisis quickly, we are sending a message to the rest of the world that we can't solve our own

problems.

Anderson: It sends the country into a tailspin and has global repercussions. You might not agree with the president, but he's right on the money in supporting Paulson's plan.

Goltermann: When banks don't trust each other because of pervasive distress in the system, their cost of borrowing goes up significantly. This in turn inhibits the free flow of credit, which negatively affects asset prices across the board. All citizens feel the effect through decreased wealth - lower home prices and retirement account balances, a softer business environment.

If you've been telling people to stay invested this year, why should they believe you when you say it to them now?

Tedstrom: Because I have seen times as frightening as this before and the time to buy is always when the news is the worst. It is rarely beneficial to go to cash after we have experienced a market downturn such as this. Look at what Warren Buffett is doing. He's buying companies he feels are undervalued. If a complete collapse was in the future, do you think he would be buying financial companies like Goldman Sachs?

Janiczek: For years we have been working with our clients to build their balance sheets, liquidity and financial stamina and to appropriately invest and spend in a manner that maximizes their ability to make it through such difficult times if they occur.

Taylor: The stock markets go up 70 percent of the time, and over any 20-year time period since 1926 investors have made more money investing in stocks than keeping all their cash invested in U.S. Treasury bills. However, in the short term, if investors are properly diversified and own good-quality municipal bonds and dividend-paying stocks they should be able to ride out this bear market.

Anderson: We will continue to encourage investors to remain highly diversified in vehicles that are less tied to the fluctuations of the financial markets.

Goltermann: Because past returns aren't predictive of future returns. Moreover, when sentiment is at its lowest, as it is now, and you have capital and time on your side, you want to be on the other side of the trade.

Say I have \$25,000 in a retirement account that I will not need to draw on for 10 years. Suggest an allocation.

Tedstrom: 40 percent large-cap U.S., 15 percent large-cap international, 5 percent emerging markets equity, 20 percent institutional quality U.S. and foreign commercial real estate, 15 percent fixed income, 5 percent cash.

Janiczek: A 6 0/30/10 stock/bond/cash mix with 50 percent put in the market today, 25 percent in another two weeks and 25 percent in another month. Of the stocks, large-cap funds but have a balance of mid, small cap and international stock funds. For the bonds, quality government and corporate bonds with an intermediate time horizon.

Taylor: 40 percent in large cap dividend paying stocks, 20 percent in high yield dividend paying stocks, and 40 percent in a no-load intermediate Colorado tax-free municipal bond fund.

Anderson: At 10 years from retirement, the most appropriate allocation would be 20 percent in real estate investment trusts with an emphasis in health care, 20 percent in emerging markets, 50 percent in the S&P 500, and the rest in good quality, intermediate term bonds.

Goltermann: 100 percent high-quality stocks in businesses with strong balance sheets and whose profitability is not strongly tied to economic cycles, but who are involved in improving people's living standards globally.

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