Low rates are biggest 'anomaly'

By Steve Rothwell
Associated Press

It's not all about the "fiscal cliff."

That's a refreshing sentiment while stock markets are being held in thrall by every comment from lawmakers in Washington on the state of budget negotiations.

If no deal on the budget is reached by the end of the year, huge tax increases and spending cuts will start to take effect Jan. 1. Economists say those measures could push the U.S. back into recession.

Yet Bill Stromberg, director of global equity and global equity research at Baltimore-based T. Rowe Price Group Inc., says the "cliff" shouldn't be investors' main focus.

"Artificially low" interest rates are the biggest "anomaly," in financial markets, he says.

People have been "pouring their money into bond funds," Stromberg says. "They have to be aware that, at some point, interest rates will go up and there will be losses."

Here are some excerpts:

Q: How should investors think about the fiscal cliff?

A: I personally don't think average investors should be structuring their portfolio around the idea of a short-term deadline. Their long-term asset allocation and choices should be based on much longer-term horizons.

Q: How will any changes in the dividend tax rate affect investor behavior?

A: IRAs, 401(k)s, tax deferred savings plans are even more beneficial when tax rates go up. Hopefully, you will see more people maximizing their contribution to those vehicles.