Pros: Don't fear stocks

Expect better returns on them in coming year

By Adam Shell
USA TODAY

NEW YORK — Five Wall Street heavyweights say it's time for individual investors to shun the perceived safety of bonds — and get over their fear of the U.S. stock market — so they can take advantage of what they predict will be a third straight year of solid gains for stocks in 2011.

The major theme from USA TODAY's 15th annual Investment Roundtable is that the bond market is looking riskier amid signs the economy is gaining traction. The five panelists say stocks, which get a boost from stronger growth, will post better returns than bonds in 2011. They are advising investors, many still leery two years after the financial crisis, to start shifting some investment dollars out of bonds and back into stocks.

"If you don't believe in a depression, and I don't," says BlackRock's chief equity strategist Bob Doll, "stocks will go up and bonds will go down in the next few years."

Adds David Bianco, chief U.S. equity strategist at Bank of America Merrill Lynch: "We're broadly bullish on U.S. equities. It's important for investors to get back into the asset class. Go buy mutual funds. Go buy index funds."

With the odds of a double-dip recession fading, assets perceived as safe, such as bonds, may be riskier than investors think.

And "risk assets" like stocks may be better priced than they appear, says Abby Joseph Cohen, senior investment strate-

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gist for Goldman Sachs' Global Markets Institute.

PRO'S PICKS: Top stocks and sectors for 2011

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WARNING: What could derail bullish predictions

Each panelist predicted double-digit gains in 2011. Dan Chung, CEO and chief investment officer at Alger Funds, was the most optimistic, saying stocks could rise more than 20% sometime in 2011. Earnings will surprise to the upside, he says.

Richard Bernstein, CEO and chief investment officer of Richard Bernstein Advisors, says U.S. stocks "sort of have the wind at their back right now."

MARKET OUTLOOK

Is it time for Main Street investors to sell bonds and buy U.S. stocks?

Since the start of 2009, individual investors spooked by the financial crisis have poured more than $664 billion into bond funds and fled stocks.

They have yanked more money out of U.S. stock funds than they have put in for 32 straight weeks. Are they making a mistake by being too risk-averse at this time?

Abby Joseph Cohen, Goldman Sachs: The relevant part of your question is "at this time." My answer is yes, they are making a mistake. One can certainly understand why investors are so concerned. We have gone through an extraordinary experience between the credit crisis, very severe recession and extremely volatile markets.

But now that we're seeing that the U.S. economy has some traction, and the likelihood of a double-dip recession is remote, it's time to look again, not just at so-called risky securities like stocks, but to do the really hard work on valuation. Because a security that seems safe, if it is priced too high, is not safe.

I would put quite a few bonds in that category. To be buying a bond at record low yields makes one think that there is now risk there. Investors have to recognize that there may be risk in the so-called safe securities, but there's also the opportunity cost of not participating in some other securities.

VIDEO: Top sectors picked by Cohen to invest in for 2011

When the economy does better, things like stocks and commodities tend to rise in price. U.S. equities are now trading between 13 and 14 times earnings, and that is significantly below the historical average. That suggests that there's good value there.

Our 12-month market forecast for the S&P is 1450.

Bob, what's your take on bonds vs. stocks?

Bob Doll, BlackRock: I echo everything Abby said.