# Risks lurk, but recovery on track

The Greenville News
greenvilleonline.com
Sunday
DECEMBER 20, 2009

By Adam Shell
USA TODAY

NEW YORK — Even though the Standard & Poor's 500-stock index is on track for its first-ever loss for a decade, it is ending the year on an upbeat note, having rebounded more than 60 percent after the worst stock downturn since the Great Depression.

Now, investors are turning their attention to the first year of the 2010s wondering if stocks can continue their bull run.

Despite the big rally, there is still trepidation among investors, as questions remain about whether the stock market and the economy are truly on a sustainable path to recovery. Two burst bubbles in the past 10 years — the tech-stock bust earlier this decade and the more recent popping of the real estate and credit bubble — have shaken the faith of many investors.

To get a sense of where financial markets may be headed, USA TODAY held its 14th annual Investment Roundtable earlier this month, which was attended by top mutual fund managers and investment strategists, including a well-known Wall Street bear.

The general consensus of the five panelists is that the recession is over and that a recovery in markets and economies around the world is underway but that risks remain. The most upbeat about the outlook for stocks in 2010 was David Bianco, head of U.S. equity strategy at Bank of America Merrill Lynch. He forecasts a 15 percent gain for the broad market on the belief that global economic growth will boost the profitability of big U.S. companies that do a lot of business overseas.

That upbeat view was not shared by David Tice, chief portfolio strategist for bear markets at Federated Investors. Tice, who believes stocks are still in a secular, or long-term, bear market, is calling for a drop of 40 percent for stocks. "It is time for individual investors to store their nuts," says Tice, whose ultrabearish views are not shared by Federated's chief investment officer, who projects gains of almost 20 percent. (Last year, Federated bought Tice's Prudent Bear funds, which profit when stocks fall.)

See MARKET on page 2E

Unlike last year, when forecasters either chose an Armageddon scenario or a bounce-back thesis, the outlook for 2010 has far more nuances. "What we have now is a more muddled picture, but it is a nicer picture," says Abby Joseph Cohen, senior investment strategist at Goldman Sachs. "Most people are taking the point of view that the period of maximum risk has passed, but we do have risks ahead. It is more normal, but it is not normal."

Brian Rogers, chairman and chief investment officer at T. Rowe Price, expects investors to keep shifting money out of risk-free assets that offer virtually zero return in favor of riskier assets such as stocks: "I don't think this is a bear market rally."

The ride in 2010 could be bumpy, says Dan Chung, CEO and chief investment officer at Alger Funds. "The market is due for a correction," he says. "But the correction is one that should be bought."

**After a scary nose dive in March, stocks are up more than 60 percent, the economy is showing signs of life and job losses are shrinking. Is it safe for individuals to come out of their investment bunkers?**

Abby Joseph Cohen, Goldman Sachs: It would appear that the U.S. recession is over, and while economic growth is likely to be slow in 2010, we don't expect to go back into recession.

But I would add one thing: It is not just one decision. If you come back into stocks, what do you get out of? With interest rates at a generational low, there is now some risk in the bond market, not necessarily today or this week, but over the next several months or year or two. If the global economy continues to grow and central bankers back away from the significant monetary policy ease, interest rates may go up, which means bond prices go down. So individual investors who have been avoiding stocks and going into bonds over the last 18 months really have two decisions to make.

**For a different take, let's turn to David Tice, the chief portfolio strategist for bear markets at Federated Investors.**

David Tice, Federated Investors: I am likely to be the most bearish of the panelists. I don't necessarily like being the curmudgeon, but it is my role because I believe strongly in my premise.

**And your premise is?**

Tice: This is a rally off of a very oversold condition. It looked like the whole system was going to implode. We have slowed the decline, but we still are not generating very much growth. Even though layoffs are slowing down, new jobs are not being created yet.

It's the time to store your nuts, the time to think about preserving capital rather than trying to get back in the stock market and make a lot of money.

**Is it riskier to be in the stock market or out of it?**

Brian Rogers, T. Rowe Price: There is always risk in stocks. At the same time, I think we have turned the corner. Economists will probably concede that the recession ended sometime in June or July.

I don't see big excesses in U.S. stocks. There are probably excesses in long-term Treasury bonds and high-yield bonds, where a lot of money flowed in

But in terms of stocks, I think the outlook for the next year is pretty good, primarily because I see reasonable valuations, decent earnings recovery and an awful lot of cash looking for a home.

**Despite tough times for U.S. consumers, won't the big stocks in the S&P 500 index benefit from growth abroad, especially in emerging markets?**

David Bianco, Bank of America Merrill Lynch: A big part of our thinking is the S&P 500 is not (over) exposed to consumer discretionary spending. It's more exposed to the global economy, and different types of end markets like business spending and commodity production.

A couple years from now, if not a lot earlier, people will look back and say, "I missed out on an opportunity of a lifetime because I was worried about this, that and the other thing."

Yet life goes on. Things are improving, slowly. And for the S&P 500, the future does look bright.

**Dan, what's your view?**

Dan Chung, Alger Funds: I remain long-term positive. But the market is due for a correction after the tremendous rally off the March lows. I don't think it would be at all shocking to get a 10 percent decline in the March-to-August period.

I don't think we retest the lows. I do think we are at the beginning of a new bull market. In the end, you want to be invested in the stock market. You want to save whatever dry powder you have and buy the dips.