Changing dynamics: Money managers shift toward value and overseas stocks

by **Cindy Krischer Goodman**
Posted 3/28/2018
Updated 3 days ago

Many money managers are shifting toward value and overseas stocks and taking a short-term approach to bonds.

A variety of economic factors looks to make 2018 a challenging year for managing investments. Despite recent stock market volatility, investors are keeping a low percentage of their portfolios in cash. Some bullish investors expect a prolonged phase of good economic news, while more wary analysts say the laws of financial physics mean the bull market will end before the close of the year.

Overall, the equity market has responded favorably to solid corporate earnings, the new corporate tax environment, higher employment and strong consumer spending. At the same time, cryptocurrencies are intriguing investors, and conversations worldwide are centering on risk versus reward. In addition, signs that the Federal Reserve will raise interest rates have investment advisers steering away from traditional fixed income for now.

Throughout Florida, money managers find themselves responding to clients' inquiries about whether to take some gains in the equity market, buy more stocks, rebalance their portfolios, change their fixed-income positions and move into alternative investments.

FLORIDA TREND asked some of the top wealth managers/ financial advisers in the state to weigh in on their strategies.

Sheri Billings
Senior Vice President / Wealth Management Advisor / Portfolio Manager Merrill Lynch, Pierce, Fenner & Smith, Weston

Recognized by Forbes as one of Florida's top wealth managers in 2018, Sheri Billings approaches investing using strategies depending on a client's age, objectives, risk tolerance and time horizon.

For people from 20 to 40, Billings typically discusses a more aggressive approach. "We are currently favoring international equities, where valuations are more compelling," she says. For 2017, large-cap stocks and international stocks outperformed large-cap value, mid-cap and small-cap stocks. Growth stocks outperformed value by almost two to one, which is why Billings suggests younger clients consider overweighting portfolios with large-cap growth stocks.

Billings first checks whether investors have a good financial foundation — debt paid off , a safety net for hiccups and a 401(k) or IRA, life insurance, disability insurance and longterm care.

With those fundamentals in place, she suggests a portfolio aligned with the families' short- and long-term needs by investing in a risk-based asset allocation of stocks, bonds and alternatives. "My concern with the current economic backdrop is bonds or fixed-income investments. It's easy for investors to visualize risk with stocks, but visualizing risks with bonds is a different animal." If interest rates rise, bond holders will find their investment worth less, even if they buy new bonds at higher yields, she explains. "The shock will come as people look at their statements and over time with an erosion of spending power," Billings says. However, if there's any kind of major economic or political event, bonds are usually the first thing to stabilize, she say.

For investors 50 and older, Billings advises adhering to less aggressive asset allocations of equities and fixed income and more global stocks in sectors of the market with low interest rate sensitivity.

Women: Opportunity to Catch Up

> Faith Xenos, founding partner of Singer Xenos, a wealth advisory firm in Coral Gables, says this year presents an ideal opportunity for women to invest in equities and accumulate wealth for retirement. "Women still fall woefully behind when it comes to financial and retirement planning," she says. According to recent data, roughly 51% of American personal wealth, or $14 trillion, is now controlled by women. Yet men's retirement account balances are more than 50% higher than women's — despite women living on average, more than six to seven years longer than men. "I tell my clients that you can make all the money in the world, but you are never fully secure unless you are informed and active in your investments," Xenos says.
>
> "It's an exciting time to be a small-cap investor."

Samuel Dedio
Founder / Managing Partner Patrumin Investors
Naples

Samuel Dedio has avoided bonds for the past two to three years. If clients insist, he prefers shortterm bonds with a maturity of one year or less "to protect against the risk of interest rates rising," he says. He is opposed to long-term bonds with more than a five-year duration.

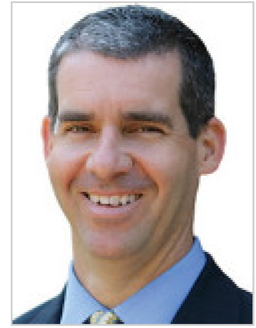
Dedio's approach to asset allocation is to include small-cap equities, which "offer better longterm performance than the S&P 500 and large-cap stocks," he says. He believes tax reform will help to create a favorable scenario for smaller companies. Admittedly, the drawback is volatility. "Some people just can't take the pain of volatility." Within small-cap stocks, Dedio leans toward the industrial, banking, technology and select consumer discretionary sectors. He prefers companies that have products or services that change consumer or business buying behavior.

For clients in their 40s and 50s, Dedio invests 40% in a U.S. multicap fund, 40% in a dividend fund and the remaining 20% in a small-cap fund.

For those 60 and older, he invests the majority of assets in a dividend fund, with 10% to 15% in small-cap stocks, with a goal of yielding 3.7%.

"A lot of clients are happy to get a 4% return from a dividendonly strategy. They are not worked up about the stock market going up or down as long as they still get dividends."

M. David Roberts
Principal / Harvest Investment Advisors
Tallahassee



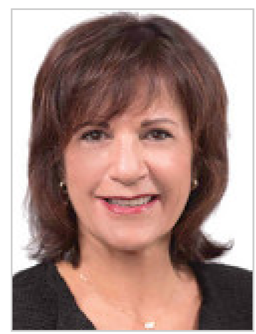
When David Roberts considers investment strategies this year, he points to the obvious: "I would be foolish not to be more positive on stocks after tax reform. It's hard to imagine lower corporate taxes won't be positive for stocks and positive for the economy in general."

Still, Roberts believes in being defensive and investing in companies that will fare better in a potentially high-interest rate environment. From his perspective, those are large-cap value stocks that pay dividends. "I think it is a good time for value over growth," he says. "Growth stocks have outperformed value for seven of the last 10 years. I think that may be about to reverse." For example, his strategy includes buying a value stock such as Colgate Palmolive rather than a hot stock like Google. He believes over the next few years that value stocks will outperform growth stocks. He also is encouraging his clients to invest in financial services stocks because a possible hike in interest rates could lead to higher earnings. Overall, he says, his strategy is to select stocks that are relatively inexpensive: "If the market corrects itself, the expensive stocks go down first."

Like most advisers, Roberts says his clients are asking whether to sell equities and bank the profits. "I'm not a fan of big bets. I am more about tweaking asset allocation or moving from stocks that are sensitive to drops (home builder or retailers) to those less sensitive (food companies)."

Roberts also is putting clients' money into the international market through exchange traded funds (ETFs). "That builds in diversification to reduce risk," he says.

Adrienne Frank
Vice President Wealth Management /
Senior Portfolio Manager Frank & Levy Wealth
Management Group-UBS Financial Services
Fort Lauderdale



Adrienne Frank's strategy this year includes overweighting energy and value stocks. More specifically, she is trimming investment in growth stocks and adding value stocks, taking a measured approach. "Going forward, I think we're going to see value outperform the growth." If someone wants to invest new money into the equities market, Frank would advise dollar-cost-averaging over six months after identifying sectors that have underperformed.

Frank also likes emerging markets, commodities, developed international and emerging markets and mutual funds that replicate hedge fund strategies.

Frank says the bonds in her portfolios last year earned the standard return, and it was tax-free. For 2018, her strategy includes investing in municipal bonds. She argues that bonds are not an all-ornothing asset class. "If things change in the stock market, fixed income is insurance."

Eric Sommer
Wealth Director /
Senior Vice President
PNC Wealth Management / Orlando

Eric Sommer urges most clients to pay off debt rather than look for big gains in the market. With that completed, he recommends putting money into college savings plans and 401(k)s, adding money to IRAs

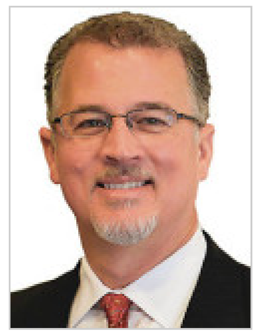
and creating an annual vacation fund.

Sommer agrees for the most part with some economists that the economic expansion may continue into 2019 based on consumer spending and business growth. Depending on the client, Sommer may recommend investing for the long term in large, strong companies, taking into consideration diversification of a portfolio. “Most big institutions stay away from IPOs and hot stocks. I look at it as slow and steady,” he says. Sommer noted that S&P stocks have performed well and should continue to do so long term. He also likes large banks and will add more of those stocks to his clients’ portfolios this year.

“For the next couple of years, the U.S. economy has a lot more going for it than not,” he says. “However, expect more market volatility.”

In terms of fixed income, Sommer is choosing bonds based on investors’ objectives, tax situations and the time frame they need to get their money out. Municipal bonds and corporate bonds could be options, he says. Also, adding elements to a bond portfolio that are less interest-rate sensitive is an option since experts assume interest rates will go up three times this year.

David Hill
Managing Director /
Investments Integrated Wealth Solutions /
Raymond James /
Orlando



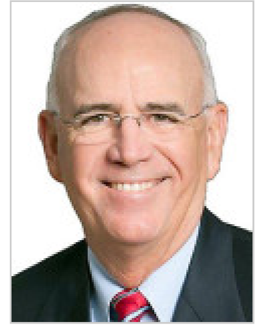
David Hill wants his clients to make paying off debt a top priority this year — particularly student loans, car loans and creditcard balances. Hill believes in paying off high-interest loans instead of putting money in the stock market, which has no guarantee of any return at all.

For 2018, Hill is taking a cautious approach. With some clients, he has begun shifting gains from equities into cash and/or short-term fixed-income with an eye to dollar-cost-averaging back into the market if equities decline significantly. If clients want to use gains to pay off debt, he is in favor of it, he says.

Hill cautions against lifestyle creep, or increasing your standard of living, just because markets have risen in recent years. In deciding whether to sell equities, Hill advises against factoring in the tax penalties. “Don’t let taxes fog a decision related to taking gains,” he says. Hill suggests a heavy investment in equities but advocates taking gains regularly and moving them into under-performing asset classes in your portfolio. “Eventually, you will have to pay taxes, but under the current tax law, it is not as bad. You are better off paying 20% on a gain than having a gain dissipate if the market goes against you.”

Hill says investors should approach the remainder of the year with an eye toward risk management and re-evaluate their overall financial plan based on the time frame in which they need their money to grow. “In this market environment, it really is important to take a diversified approach,” he says.

V. Raymond Ferrara
Chairman / CEO
ProVise Management Group
Clearwater

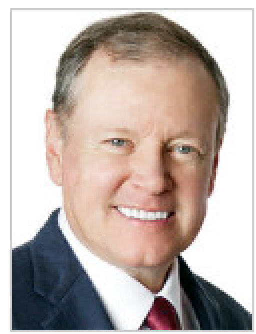


Ray Ferrara sums up his strategy for investment: Don't invest in cryptocurrency, avoid investing in long-term bonds and steer clear of investing in the dollar against other currencies. "It looks as if the dollar will continue to weaken," he says.

Instead, the certified financial planner favors health care and banking stocks because of the positive outlook for those industries. He believes bank stocks will perform well this year with the rising interest rate environment. He likes health care because of the significant mergers and acquisitions activity in the sector and the large aging Baby Boomer population. Overall, Ferrara sees the equity market as a good investment and expects a continued rise: "Just how dramatically, though, we will have to wait and see." With new money, he would dollar-cost-average into the market over the next six to 12 months. "If it goes down, you can buy more as it is going down."

Recognizing technology as a hot sector of the equities market, Ferrara says investors should use a longer-term approach. "If you are buying or holding technology stocks for 2018, you may experience a lot of volatility. If you are holding them for five years or more, it is highly likely you will be rewarded nicely for your investment." Ferrara says he is selling his winners and buying more of the losers. "I am selling stocks that went up in value and buying those that didn't go up as fast or declined. It sounds counterintuitive, but everything runs through cycles."

Ferrara says he doesn't shy away from investing in bonds but is buying on "the short end of the curve" with a maturity of less than three years. "You may give up interest, but you protect the principal."



Tom Moran
Moran Edwards Asset Management Group /
Wells Fargo Advisors
Naples

From the West Coast of Florida, Tom Moran has been managing the finances of wealthy clients for 30 years. This year, he has an even greater bias toward equities and a new emphasis on value stocks over growth stocks. When selecting value stocks, he is broadening his scope to include more mid- and small-cap stocks, expecting them to benefit from tax reform. He looks for companies with strong balance sheets, low debt and low priceto- book ratios. "That's my definition of value stocks," he says.

His selections include almost all sectors, although in the tech sector he veers away from larger multinationals that he considers overvalued. "This year, we are putting less emphasis on high-dividend stocks like utilities and moving toward the second quintile, stocks that are paying 2% or 3% rather than 4%. Maybe we can make it up with growth opportunities."

For those clients who can tolerate more risk, his strategy for 2018 includes index funds that represent a portfolio of stocks in countries such as South Africa, Indonesia, Colombia, Taiwan and Brazil. For more conservative clients interested in international diversification, he recommends more developed countries such at the U.K., Germany, Japan and Switzerland.

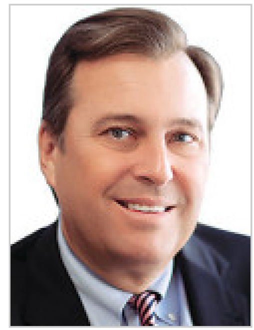
Moran continues to keep bonds in clients' portfolios but won't add more this year unless the durations are short or the bonds are convertibles. "If you're looking for growth, you are not going to find it in fixed income," he says. "We've reduced our exposure to long-term maturity bonds because there is not enough return for risk. I think we will see low or negative rates of return after taxes and inflation."

Other alternative investments in his 2018 strategy are precious metals, timber and currency.

Moran views this year as a particularly challenging year. Equities are no longer cheap. Prices are volatile, and getting returns on fixed income is a challenge as interest rates rise, he noted.

USF: Financial Planning Degree

> The University of South Florida's Muma College of Business is using a contribution from Raymond James Financial to support the college's new personal financial planning degree program, which began offering courses in fall 2017. The investment and planning giant recently made a $200,000 donation to the program, which is under the directorship of Laura Mattia.



Chris Conner
Managing Director /
North Florida Wealth Advisors
Gainesville

Chris Conner's telephone has been ringing. His clients want to know whether to invest in bitcoin. "I tell them it's a bubble and I believe it will end badly." Instead, Conner embraces a long-term, goal-oriented investment strategy. He prefers large-cap, dividend-paying stocks with good management teams. This year, those stocks are in industries that include building materials and engineering. He has started looking at investments overseas, particularly emerging markets. "We think that's where there will be growth." Conner says he is scouting for emerging markets funds that might have an up-and-coming airline in Latin America or an upstart business in Turkey. His approach is buying a basket of those stocks selected purposefully by fund managers. Some could be dividend-paying stocks.

Conner also invests in technology and biotechnology stocks through funds in which he trusts the manager. "It is not my job to guess which stocks will do well. I leave to professionals to buy a basket of them. If one goes down, it is still OK. I have to be defensive when I'm dealing with clients at or near retirement."

Conner says he also includes cash in the portfolios he manages, and in 2018, he only will purchase bonds as a package that includes some "good quality" corporate bonds. Like most money managers, Conner noted the possibility that geopolitical actions could affect the U.S. economy, which is why his clients have individual goals and are saving and investing toward them. "They are not caught up in the day to day."

Linda Lubitz Boone
Founder / President
Lubitz Financial Group
Miami

After determining the rate of return a portfolio needs to earn, Lubitz Boone, a certified financial planner, chooses an asset allocation that will support it. Apart from stocks and bonds, that portfolio this year will include real estate, reinsurance funds and other alternative investments. She is including reinsurance funds because what happens in the stock market has nothing to do with the amount of premiums property insurers receive, she says. "We are hedging our bets, and these funds have grown nicely over time."

Another alternative investment Lubitz Boone likes for 2018 is currencies, specifically funds that invest in a range of currencies around the world.

For some retired clients, she is advocating taking equities gains this year and putting them into a short-term certificates of deposit or a money-market account with a monthly distribution. “My clients need to be in a position where they don’t have to sell at a time when it’s not opportune,” she says.

She is also investing in the Russell 1000 and considers it a less risky alternative to buying individual stocks. For someone who is focused on short-term growth, Lubitz Boone recommends emerging-markets mutual funds. However, she is bullish on U.S. equities, mostly because companies are becoming more profitable. She believes any market corrections this year are an opportunity to snap up shares of good stocks at lower prices as long as you are not already overweighted on stocks.

See other stories from Florida Trend's April issue.