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Financial advisers look ahead to 2012

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If your job over the past year required you to track the stock market on a daily basis, chances are you're ending the year with a queasy stomach and a sore neck.

This year has been characterized by wild daily fluctuations in the markets as investors reacted to various bits of good (Europe has solved its debt crisis!) and bad (Europe has not solved its debt crisis!) economic news.

But much like a roller coaster, the markets ended the year about where they started. The S&P 500 ended the year up 0.4 percent while the Dow Jones industrial average was up 5.5 percent. To shed more light on what the next 12 months might look like, we turned to a handful of money managers and financial advisers in Charlotte and the Triangle.

Each answered a series of questions about investing strategies, economic indicators to watch in the months ahead and what they've learned from the global economic crisis.

Although it should go without saying, we'll say it anyway: None of this advice is foolproof. Investors should do their own research, stay diversified and assess their own appetite for risk.

Edward R. Doughty

Edward R. Doughty is the managing director of Epic Capital Wealth Management, an independent multifamily wealth and estate planning firm in Charlotte that offers securities through LPL

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Investing strategies: Spend time understanding the correlation between different investment asset classes and see how they respond to daily market fluctuations. Have your investments stress-tested for different economic and market events to find areas of both opportunity and vulnerability.

Outlook for stocks **:** Global markets will hinge on whether there is unified action in Europe - not just talk of action - and the painful ramifications of inaction. U.S. markets will continue to battle between an improving economic-front domestically, paired with a slowdown in growth globally. Continued market volatility will create more tactical opportunities, taking advantage of broad asset class pullbacks and subsequent recoveries.

Top investments **:** A global tactical approach, which combines core investment holdings such as a low-correlative mix of multiple asset classes and styles, utilizing both traditional and nontraditional investments complemented by opportunistic and shorter-term satellite positions where profits are taken more quickly. Also, look to cushion volatility in a portfolio with investments that generate cash flow back to the investor.

Red flags **:** The U.S. dollar (strengthening too fast), a slowdown in industrial production and business spending kept on ice.

Key indicators **:** Baltic Dry Index, Dow Jones-UBS Commodity Index, International Trade and the Consumer Price Index.

Advice for nervous clients **:** Regarding Europe, collectively they are aiming in the right direction but now they need to pull the trigger. Europe could take a long time to heal, but they will. Lessen exposure there if time is a factor or if overweight in that region. Look domestically or to smaller foreign markets with better growth potential. Political uncertainty in the U.S. happens every four years, if not more often. I don't see it having much of an impact in 2012, more so in 2013. The world is flat, and the U.S. markets grow more and more sensitive to the loud noises from our neighbors across the pond.

Advice for a low interest-rate environment **:** Expect no return on cash. Cash is meant not to be

invested. It should be 100 percent safe and 100 percent liquid. Look to invest in sleeves of risk (there are multiple types), having the highest risk sleeve contain your longest term dollars. This allows you to keep a large percentage of your assets very safe while collectively enhancing the overall return on all of the dollars.

Mark Antonich

Mark Antonich is a CFP (Certified Financial Planner) and manages an Ameriprise Platinum Financial Services practice in Charlotte.

Investing strategies: A wise strategy is to focus less on a particular investment and instead define what it is you desire to accomplish. Define the goal, the time horizon, the expected return, the savings requirement, the tolerance for risk, the tax implications, etc. Money is a "means to an end." If the "end" is not defined and planned for, the likelihood of success is greatly reduced. Also, appreciate that a "financial plan" is not solely comprised of an investment strategy. Be sure to create an efficient strategy for cash flow planning, asset and liability management, protection planning, tax reduction, and estate and legacy planning. If you need help, seek the guidance of a credentialed professional.

Outlook for stocks **:** No forecast.

Top stock picks or other investments: For equities consider dividend payers, defensive sectors such as consumer staples and health care, and multinational companies with diverse geographic revenue sources; for fixed income consider quality corporate and municipal debt; focus on risk and valuation. Alternative investments should play a larger role in portfolio construction and diversification, so educate yourself on this asset class. And remember, emotions should be removed from the investment decision-making process.

Red flags: The evolving European debt crisis and the potential impact on the Euro zone banking system. The eventual rise of inflation and interest rates.

Key indicators **:** Jobs are key; so are consumer confidence and housing.

Advice for nervous clients **:** Calamity and crisis will come and go, then repeat. I suggest that investors spend energy only on what is in their control. With that said, focus on your "personal economy": reduce debt, live within your means, save more, save even more and plan and prepare for the certainty of uncertainty.

Advice for a low interest-rate environment: First, acknowledge the reality that "cash" (savings, money markets, CDs) are paying nominal yields that equate to negative real returns (return after inflation). Second, understand that a number of opportunities do exist to boost yields with a minimal increase in risk and/or volatility.

Mark W. Yusko

Mark W. Yusko manages $9 billion as CEO and chief investment officer of Morgan Creek Capital Management in Chapel Hill.

Investing strategies: Focus on lowering the volatility of your portfolio. Do it through diversification and by focusing on higher quality assets. If you're going to own fixed-income, own high-quality. If you're going to own equities, own quality but also own where there's growth. You really need to be in the developing or emerging markets where growth is high and they don't have the debt problems and they have inflation instead of deflation.

Outlook for stocks: I think Japan, Europe and the U.S. are going to struggle. You'll be lucky to make a positive return in any of those markets. In the developing world I think there are a number of places where you could make money. But the risks are there too in that many of those markets rely at least for some of their exports on these other markets. I'm hopeful we might see flat returns in the developed world and low single-digit returns in the developing world.

Top stock picks or other investments: Gold, Long Treasuries (TLT), health care companies and companies that are consumer staples. High-quality technology companies with lots of cash and low debt.

Red Flags: Deflation in the U.S., Japan and Europe. Rising inflation in India and Brazil. Declining Chinese production levels. Worsening employment picture.

Key indicators: European growth and U.S. economic growth in first and second quarter.

Advice for nervous clients: People have been trying to catch the falling knife in European financials. I think that's just a terrible idea. I would be under weight in Europe in the short-term, and if you feel you have to own Europe try to own the higher quality companies (Volkswagen, Mercedes, BMW and Siemens).

Advice for a low-interest rate environment: High-yield bonds. Or if you can get high dividend-paying stocks that pay 4 percent or 5 percent, that's probably a better plan today because some of those companies have very strong balance sheets, even better than the balance sheets of high-yield bond issuers. If you understand what you're buying, taking a little bit of credit risk is not a bad idea as long as you stay diversified.

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