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Risk-reduction strategies in play

Business First of Buffalo - by Dale English

| To what extent, if any, are your clients adjusting the investment strategies to rise out the recession?

Joseph Curatolo, president, **Georgetown Capital Group**, Williamsville:

Unless you've been in a coma for the past 12 months you've probably made some sort of risk reduction in your investment accounts.

In the past year almost every managed investment client of our firm has made some, if not many, transactions to lower their stock market risk. We were very proactive last spring and summer to contact most of our clients and move them into a lower stock market allocation. As the economy went from bad to worse, and the stock markets as well, many of our clients wanted to lower their stock allocation from 50 percent to 25 percent and, in many cases, zero.

The majority of our clients currently have zero to 25 percent of their assets in equities and the balance in fixed income or cash. The most common theme is "lower my risk but make sure I'm flexible enough to get back in when the markets look better."

Lauren Gidley, president, **Prosperity Wealth Management**, Williamsville:

My clients have strategies in place intended to protect their gains and preserve their wealth. We activated those strategies in 2008, moving to cash and government bond funds. Most of my clients also have investments in their portfolio designed to capture growth when the stock market is rising and attempt to provide attractive returns when the market is moving sideways or declining. These strategies seek to produce secure retirement income for clients, regardless of the market's direction.

Since we believe that the type of stock market we are in will take many years to return to its previous high, we have strategies in place that attempt to take advantage of market rallies to lock in growth. But more importantly, plans exist to guard against further stock market declines by attempting to take advantage of secured returns when the market is not advancing. That helps clients know there is a plan in place to keep their retirement income secure.

Richard Hilliker, president, **S.C. Parker & Company**, Williamsville:

Most of our people are riding it through, except for some who are really scared to death. One liquidated a substantial portfolio because he was going on an extended trip. We did suggest to many retirees – because we don't have a good feel for who may be cutting dividends such as the TARP-takers and Alcoa-types – it might be wise to develop enough cash for whatever period and amount that makes them comfortable.

Money markets and CDs are very poor yields, so if a company has decent coverage of its dividends, it might be better to only develop enough cash for a few months and ride it out. There are signs the worst might be over, but it doesn't imply a return to bull market days right away. There is much more water to go over the dam.

Thomas Quealy Jr., CEO, **Nottingham Advisors**, Williamsville:

It is important to remember that in virtually every case the equity markets see the light at the end of the tunnel well in advance of any economic data supporting a recovery from a recession. We believe this time will be no different.

Remembering that panic is not a strategy, we are reviewing with our clients their investment policy statements, rebalancing asset classes where necessary, and making changes only if their personal situation has changed. For those clients who regularly withdraw money, we are making sure they have at least a couple years' worth of living expenses in cash.

Beyond that, we are focused on a recovery plan. Through an emphasis on Exchange-Traded Funds, we favor large companies over small ones, growth over value, and domestic over international. We are also preparing for the return of inflation by allocating to gold, commodities, and Treasury Inflation-Protected Securities.

Mark Stevens, principal, **Mark Stevens Financial LLC**, Orchard Park:

We are involved in asset allocation and management and looked at each client, based on income needs, risk "gut check," and income sources such as pensions and Social Security. While age is a factor, it isn't primary in decisions regarding portfolio change as our eldest client is 102.

With the benefit of hindsight, our firm mobilized into a "financial triage" style of management. Difficult decisions had to be made and since the fundamentals of modern portfolio theory were set on their head, each person's pre-crisis goals needed "triage." From our clients'

comments, we feel confident their interests were protected during this crisis.

As we enter our next phase, post-crisis management, we are focusing on four areas:

• Readjusting risk tolerances to capture upside market swings when prudent.

•Avoiding the knee-jerk reaction to “go to cash” and moving solely to fixed interest products.

• Turning away from the compulsion to use “market timing” or dynamic asset allocation modeling where there are swings from cash into market, based on historical and proprietary data.

• Continuing to review the market for paradigm shifts occurring as the new economy shows itself.

Jonathan Weir, principal, **Weir Financial Resources LLC**, Buffalo:

Very little. Our corporate and individual clients carry plenty of risk throughout their business and personal planning. As a result, WFR has long maintained a “foundation first” or portfolio security approach to planning and investment strategies.

Corporate clients in particular rely on us to provide a solid, consistent foundation within the comprehensive benefit and surplus financing strategies we offer. Fortunately, because of placing most of their investments in more secure financial vehicles, clients have not had to make major adjustments in this challenging market.

What our clients are adjusting to is the amount of such foundational financing. While it was not sexy during the run-up, the year-over-year consistent and positive results have clients calling for more.

There has been great interest by our financial institution clients, for example, in the detail behind and ability to position into a Quality versus Yield portfolio, with its targeted 20 percent risk-based capital weighting via AAA-rated mortgage-backed securities, treasury and agency bonds and strips.

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