August 23, 2020 12:04 AM

Investment managers try to keep clients from getting seasick as market crests amid rough economy

TOM HENDERSON

Leader pointing hand forward Overcome the corona virus crisis-Business leadership concept

MORE
Money managers weigh in on their investing likes, dislikes and what they avoid like a virus

In February, it would have seemed that something like *this* could only happen in some dystopian novel, *this* being: A financial crisis that would soon cause the U.S. Federal Reserve and the U.S. Congress to team up to triple the finance stimulus to the economy that had been provided during the Great Recession of 2008-2009, yet, despite that help, the second quarter would see by orders of magnitude the largest contraction of GDP since the Great Depression, a decline at an annualized rate of 32.9 percent.

If you had known that in February, you would have also known that by mid-August, we all would be living in a dystopian world, not reading a dystopian novel.

But, at least in the world of financial markets, IRAs and large life savings being managed by wealth managers, you would have been dead wrong.

Financial markets are humming along like they were before anyone heard the term "COVID-19," hitting record highs or flirting with them.

News of the shocking decline in GDP came July 30. The following week, the NASDAQ exchange hit its all-time high four days in a row, finishing at 10,941.91 on Aug. 5, the same day the Dow was up for the fourth straight day, by 373 points to finish at 27,201, within sight of its all-time high of 29,551 on Feb. 12. And on Friday, the S&P 500 hit another all-time high.

"The good news is the GDP is backward-looking and markets are forward-looking. The economy is starting to expand," said Anne MacIntyre, president and CEO of Annie Mac Financial LLC in Sterling Heights.

"It's been a tug of war between epic fiscal stimulus — which at nine and a half trillion dollars is about 44 percent of GDP, which is absolutely unprecedented — and the unknown of shutting down major parts of the economy. The stock market has been more focused on the stimulus, which is why markets have rallied so much," said David Sowerby, managing director and portfolio manager of Ancora Advisers LLC in Bloomfield Hills.

The Nasdaq is tech-heavy, and the stay-at-home economy has been a huge revenue driver for tech stocks. Where would the economy be without Zoom and online ordering of every kind of consumer staple, edible and readable? And the Dow was up on optimism on various COVID-19 vaccine fronts and on Congress making progress toward more stimulus.

But in March, when the Dow was collapsing toward what many worried was a bottom that would take years to crawl out of, money managers weren't talking about markets looking forward, or the strengths of tech; they were using all the logic, hand holding, arm twisting and cajoling they could muster to keep their clients from selling on the way down.

"We had to talk some clients off the ledge," said Lyle Wolberg, a partner in Southfield-based Telemus Capital LLC. He said that after the runup in markets in the year before the COVID crash, he had been rebalancing clients' portfolio, which, fortuitously as it turned out, meant taking a larger cash position. "We had cash on hand and didn't have to panic."

"I earned my Ph.D. in human behavior and psychology the last six months," said Peter Schwartz, a principal in Gregory J. Schwartz & Co. of Bloomfield Hills. "Luckily, most clients heeded our advice and didn't sell, and many of them have ended up breaking even or even making a little. People who benefit from investing are the ones who control their emotions.

"Ninety percent of stock price is based on future earnings. People were shocked the stock market came back as quickly as it has, but markets are looking out three months, six months, nine months. There's a disconnect between the headlines and what the market is doing," he said.

Melissa Spickler, managing director of Merrill Lynch's Spickler Wealth Management Group in Bloomfield Hills, timed things well. The last two weeks of February and the first two weeks of March, she sharply increased her clients' cash position. "When the markets started going down in February, no one thought the virus would become what it has become. I had made a lot of money for my clients in the previous year. I wanted to take a bit of profits and give everyone a year to 18 months of cash," she said. "When the markets went down, I told my clients that they wouldn't stay down long."

Mike Dzialo, the president and chief investment officer of Rochester-based Managed Asset Portfolios LLC, said that while the markets have bounced back strongly, driven by the economic stimulus and technology companies serving the needs and wants of a locked-down society, the changes wrought will have serious long-term implications for society and for investors. "Companies can have people working anywhere in the country. A lot of companies are headquartered in high-cost markets, and they are going to be downsizing."

People have quickly grown accustomed to people-less delivery and service, and more is coming. "Walmart is testing a store in Arkansas that doesn't have any cashiers, and White Castle has introduced a robotic grilling arm called Flippy. It costs White Castle $3 an hour to run, and Flippy doesn't call in sick," he said.

In March, *before* lockdown, Bowling Green University in Ohio debuted a fleet of 30 robots to replace humans while delivering food to students from Dunkin'

Donuts, Jamba Juice, Panda Express, Starbucks and others.

"In five to 10 years, we won't have any cashiers, we won't have stock people," he said.

For the annual *Crain's* report on wealth management, there are often disagreements on what will be the important issues in the coming year for them and their clients. In the past, that has included: Will there be a Brexit? How near is a record bull market to coming to the end? Is President Donald Trump serious about tariffs, and what might that mean? Do the emerging BRIC markets (Brazil, Russia, India and China) still retain their luster? How would oil hitting an all-time high of $147 a barrel (in 2008) affect the economy?

This year COVID-19 dominated all discussions. Even the presidential election was almost an afterthought.

"I had lunch with a client not too long ago, and the conversation didn't get to the election until mid-meal," said Tony Catalina, director of private banking for Fifth Third Bank Private Banking in Birmingham. "In mid- to late July of an election year, that would normally be the first thing we'd discuss. It didn't come up until we were 35 minutes into the lunch."

As for the election, the consensus among the 17 advisers interviewed for this section was that whoever wins the presidency almost doesn't matter so much if there remains a divided government. Other areas of general agreement? Keep investing in health care and technology; go for the gold despite its no longer being an Olympic year; and count on higher taxes.

Gridlock

"Historically, it is important to have a split Congress," said MacIntyre. "When there is a split Congress, markets have been up 17.2 percent. When it's a Democratic Congress, markets were up 10.7 percent. When it's a Republican Congress, markets were up 13.6 percent."

"Split power is a good thing. We're assuming one party will not control all three branches," said Wolberg.

"Gridlock has been good for the markets," said Leon LaBrecque, chief growth officer at Sequoia Financial Group in Troy. "It will be more problematic for markets if the Democrats win all three, but I don't think the sky will be falling if there is a Democratic sweep."

"When one party controls everything, that's a red flag for market returns," said Sowerby.

"If there's a Democratic president and a Republican Senate, that might be the best-case scenario," said Nancy Meconi, partner in Plante Moran Financial Advisors LLC of Auburn Hills. "But don't let politics be a primary driver of your investment decisions."

"Regardless of who wins the presidency, as long as we have a divided House and Senate, that's seen in my world as a good thing," said Jeffrey Fratarcangeli, managing principal of Wells Fargo Advisors' Fratarcangeli Wealth Management of Birmingham.

A contrarian view is held by Aubrey Lee Jr., senior partner of Merrill Lynch's Aubrey Lee Jr. and Julius Readus Group in Farmington Hills. His group currently rates the chances of a Democratic sweep at 63 percent, and he is fine with that. "Investors are really taking in stride the odds of a sweep. Policies to cut unemployment will outweigh what will likely be higher taxes," he said.

Taxes

Speaking of taxes: "Whoever gets in in November, taxes have to go up. They have to pay for all this stimulus," said Spickler.

"Tax rates are going to go up no matter who wins the White House," said John Augustine, the chief investment officer for Columbus-based Huntington Bank, Columbus, Ohio.

"Higher taxes will come next year regardless," said Jim Robinson, CEO of Grosse Pointe-based Robinson Capital LLC.

"We think whatever happens in the election, there will be an increase in estate taxes," said Wolberg. "Politicians like to tax people who can't vote, and that's people who have passed away. Now is the time to do some planning to reduce your estate taxes."

Gold

Gold hit a record high of $2,030.72 on Aug. 5, taking none of the financial advisers by surprise.

"We like gold because we think the dollar is heading lower," said Dzialo. "The euro is at a two-year high versus the dollar. The investment world is looking for something other than the dollar, and currency moves tend to be long term."

Angela Palacios, a partner and director of investments for the Center for Financial Planning in Southfield, said she isn't just buying gold, she's buying gold-mine companies, too.

"Precious metals all become popular when the perception is that central banks are doing crazy things," said Robinson.

Wolberg echoed that, saying it made sense to take a larger gold position when the Fed and Congress started pouring money into the economy. "The size of the U.S. deficit meant it was likely to be good for gold prices," he said.

"If you think the dollar will continue to fall, and it's at its lowest level in years, gold is in play," said MacIntyre.

"I normally don't have gold, but I bought gold as a hedge," said Spickler.

"I expect the U.S. dollar to weaken and gold to be strong," said Scott Bork,senior vice president and director of investments for Detroit-based TCF Financial. "Gold and silver still have some upside potential."

"I'm not a gold bug, but when people are worried about pandemics, gold is a good thing to have in your portfolio," said Sowerby.

"Once referred to as the 'barbarous relic' by economist John Maynard Keynes, gold continues to serve both as a safe haven and a store of value for many global investors, particularly during a time of heightened uncertainty," said John Lynch, chief investment officer of Comerica Wealth Management in Dallas. "Gold is in the unique position of offering the possibility of protection against both inflation and deflation."