Expert: Market In 'Corrective Phase'

By Wayne Fishman

The Express-Times (Page: D1)

03/28/2004

Thursday's rally not withstanding, the stock market has been tanking lately. But local experts do not see any reason for panic.

The market is in a "natural corrective phase" initiated by the run-up in stock prices over the past year, according to Dean McDermott, owner of the financial service firm Dean McDermott & Co. in Bethlehem and a finance professor at Cedar Crest College.

McDermott said recent geopolitical events, renewed terrorism fears and high profile corporate scandals have also weighed on the confidence of small investors and have contributed to the recent declines.

Nevertheless, barring another major terrorist strike, McDermott does not foresee major near-term erosion in the much-followed Dow Jones Industrial Average.

"I don't think we're going to see a 2,000- or 3,000-point drop in the Dow," he said.

The Dow closed the week at 10212.97, down almost 5 percent from its 52-week high of 10,753.63 posted in February. Friday's close followed a 170-point rally on Thursday preceded by precipitous drops earlier in the week.

McDermott sees technical support for the Dow at the 9,850 level and predicts a 1,000-point trading range for the next several months.

He said a major success in the war on terrorism - such as the capture of Osama bin Laden - would likely propel the market through its most recent highs. However, the key to the next market rally, he said, is clarity on the direction of interest rates.

McDermott said Federal Reserve Chairman Alan Greenspan has been "sitting on the fence," although investors have begun to move money into inflation-resistant, defensive stocks in anticipation of higher rates.

Still, investors hate uncertainty, and McDermott expects a "relief rally" in the market once the Fed either moves on rates or clearly indicates the direction of the next move. He said he expects a stronger market rally if the direction of rates is up, which would signal the Fed's confidence that the economy is improving.

Christopher M. Jones, a certified financial planner with Keystone Financial Planning in Wilson Borough, agrees that the recent sell-off is attributable to profit-taking and geopolitical uncertainty, noting in particular the Madrid bombings.

However, Jones said there is no value in trying to predict the direction of the market and that investors are not well served by such predictions.

"There are so many things that affect the market" that only from a historical perspective can we determine the cause of any particular market move, he said.

"I don't think any financial planner has a clue what's going to happen," Jones said. "I have no idea, and I don't think anyone else does either."

In fact, Jones said the biggest mistake investors make is trying to predict the direction of the market, noting that the substantial returns of the past year were not what many experts expected. He said studying the market on a daily basis contributes not only to bad investment decisions but also leads to unnecessary stress.

Jones said investors should allocate their resources based on their individual goals, risk tolerance and time horizon. He recommends a diversified portfolio of stocks and bonds, both domestic and international.

Investors should decide what mix of stocks and bonds suits them and adjust their holdings to maintain that mix by selling what has done well and buying what has done poorly, he said.

"The bottom line is people need to be diversified," he said.