



# WEALTH MANAGER: Short-term bet against a long-term winner

- Large cap U.S. stocks in good position for growth
- S&P 500 outshone MSCI emerging market index over 3 mos
- Look for a reversal of the trend later this year

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TORONTO (Reuters) — Fund managers are starting to pull some of their chips out of the emerging markets and put them to work closer to home.

It's a short-term play, not a loss of faith in the long-term growth potential of the equities markets of China, India and other star performers in recent years, said Mark Luschni, chief investment strategist at Janney Montgomery Scott LLC in Philadelphia.

Those economies are facing the temporary headwinds of rising interest rates to cool inflation, while a range of variables has lined up to work in favor of increased investment in the United States.

"You have the economic underpinning showing sequential improvement, you have a climate that's ripe for corporate profitability, you have companies that are in great financial shape, and last but not least, you have undemanding valuations," he said.

"That's combining to make the good old U.S.A. appealing on a global equities basis."

Taking a long look back at the performance of emerging markets equities, Luschni's view may seem counter-intuitive.

The MSCI Emerging Market index — which includes holdings from Brazil, South Korea, China, and India — has returned 14.4 percent on an annualized basis for the last decade, while the S&P 500 produced an annualized total return of 1.3 percent.

But over the past three months, the S&P 500 has risen 9.2 percent, while the MSCI emerging market index is up a relatively meager 1.5 percent.

"We're not suggesting completely ignoring emerging markets, we're just saying be mindful of your setting there, particularly as investors have been plowing money into emerging markets funds over the past year-and-a-half," he said.

John Stephenson, a portfolio manager at First Asset Investment Management in Toronto, said it makes sense to look more closely at the United States for the next little while.

"In the short run it's not a bad idea, because of the totally diverging monetary policies — we're trying to get the darned economy going and they're trying to keep it from overheating," said Stephenson. "You'll probably get a little more pop for it."

Typically, Luschni said his firm would hold around 20 percent to 25 percent as an international com-



ponent in a portfolio. Today it's more like 15 percent to 20 percent.

Within the international component, the split would normally be about even between developed and emerging markets, but right now it's skewed a little bit more to the developed side, particularly Germany and Japan.

### **U.S. PULLBACK POSSIBLE**

While waiting for valuations to ease in the developing markets, Luschini acknowledged that a pullback in U.S. equities is possible, if not likely, as well.

"In the last two quarters of 2010, we had better than 10 percent gains in each quarter," he said, referring to the S&P 500. "We've only had 16 of those over the last 30 years."

"So a string of back-to-back is unusual to say the least, and here we are starting off the first quarter seeing more of the same, so I think that we are ripe for some sort of correction, albeit one that I think will be temporary, and healthy."

He said U.S. small-cap stocks look a little rich, given that their valuations have been stretched, but it's a different story in the large-cap, blue-chip space, where he said many names are trading at a discount to the market over all.

"You not only see the benefit of share price growth through profitability, but at the same time, there are prospects for multiple expansion," he said, adding that his firm's "high conviction sectors" are energy, technology, and health care.

(Reporting by John McCrank; Editing by Frank McGurty)