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Analysts, Bush urge investors to just hang on

As markets continue roller-coaster ride, Austin advisers warn against 'panic selling'

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As Wall Street's wild swings continued to rattle investors Monday, Central Texas stockbrokers sounded more like preachers, exhorting investors to keep the faith.

"I'm telling them literally to have patience and to have faith in the economy and the country," said John Bouwman, an investment representative in the Austin office of Edward Jones Investments, a St. Louis-based financial services firm. "Although it looks ugly now, the market will resume its move forward. We just don't know when."

His optimism echoes that of President Bush, who told an audience Monday at the University of Alabama at Birmingham to have faith in an economy that is fundamentally strong.

"In spite of the fact that we've been in a slump for a while," Bush said, "this economy is coming back."

But even as the president spoke, the Dow Jones industrial average was in the throes of a dramatic plunge that had begun earlier in the day. The index, which tracks the nation's top 30 industrial companies, plummeted almost 440 points before bouncing back in the afternoon to close at 8,639.19, down only 45.34 for the day. The broader market indexes, including the Nasdaq and the Standard & Poor's 500, followed the same roller-coaster pattern.

Wall Street has been in the clutches of a bear market since mid-March. Although some market watchers think the doldrums reflect long-term problems in the economy, Bouwman summed up the sentiment of several local brokers and financial advisers: This, too, shall pass.

"Bear markets never last forever. They grind away at the investors' confidence and generate a lot of fear, and after awhile, when there's nobody left to sell (stocks), that's when the bull market starts," Bouwman said.

It was fear that triggered Monday's selloff, market watchers said.

"The market is all about greed and about psychology, and whether people are positive or negative," said Mark MacQueen, executive vice president of Austin-based Sage Advisory Services Inc. "When the markets are running up fast, people get greedy and invest too much, and when it's going down, they sell. That leads to panic selling when the market is low and panic buying when the market's high."

The bear market is beginning to wear on investors.

"There's no doubt about that," Bouwman said. "Unless we get a rally in the last few months of this year, this will be only the third time since 1926 that bonds have outperformed stocks three years in a row."

Although local brokers said their phones were busier than usual Monday, they weren't deluged.

"There are people that are concerned out there, but there's certainly no widespread panic," said Bruce Stacy, branch manager in the Austin offices of UBS PaineWebber, an investment brokerage firm. "Most of our clients invest for the long view."

Some investors see opportunity in a bear market.

"My clients have been anticipating this, and they love it," said Shane Sullivan, vice president of investments at A.G. Edwards & Sons Inc. in Austin. Sullivan represents clients who have at least $2 million to invest.

Although recent corporate scandals may not affect an individual investor's portfolio, "all this fear affects the whole market," Sullivan said.

"The average investor becomes very, very fearful, and they'll sell at any price, and that's never good," Sullivan said. Sophisticated investors, meanwhile, "take advantage of that fear by buying low."

Some blame the stock market slide on the recent corporate accounting scandals, from Enron Corp. to WorldCom Inc., along with investor anxiety over company earnings and fears of possible terrorist attacks. But others, including the president on Monday, argue that what investors have seen is simply the market correcting itself from overinflated stock prices.

In his speech, Bush said the economy is suffering from a "hangover" from the go-go 1990s.

Mark Dotzour, chief economist at the Real Estate Center at Texas A&M University, agrees.

"The market is still overpriced, although less grossly overpriced than it was," he said last week.

Under one economic model, Dotzour said a reasonable range of fair value for the S&P index is about 891 to 978 -- about 18 percent to 29 percent below its level in mid-March. "The index could drop another 20 percent before it gets back to normal," he said.

Jerry Howard, an investment representative with Edward Jones in Austin, said that although there's pain in the stock market now, "it's a very positive thing that the market is correcting."

"We're going to have to touch a low before we start building back," Howard said. "This is a normal progression as far as touching the bottom so we can start a base to start improving."

MacQueen and others say long-term investors with diversified portfolios "will weather this storm." People ages 60 or older should have no more than 40 percent of their money in stocks and the rest in bonds or other fixed-income assets to reduce their risk.

As for when the market will improve, no one can say for sure. As MacQueen put it, "You and me would be on the beach in Brazil for sure if I knew."

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