INVESTING IT

Pay proper attention to economy's vital signs

When I started in the financial industry, I was young and fueled with determination about the practice of my profession. This presented a unique challenge in a male-dominated industry of gray-haired sentinels. I had to fight for my opportunities and acceptance.

Once, I was up for a promotion and was told that if I "had more gray hair and wrinkles," they would consider me. As a young rebuttal to a blatant sexist view, I said, "That's fine, but, I hope you understand I may need to look for another position that will provide me with some opportunity." In the end, I did get the promotion, but their point had weight. As a young female, I knew I needed to be on top of my game, have superior knowledge and be able to back up that knowledge with facts.

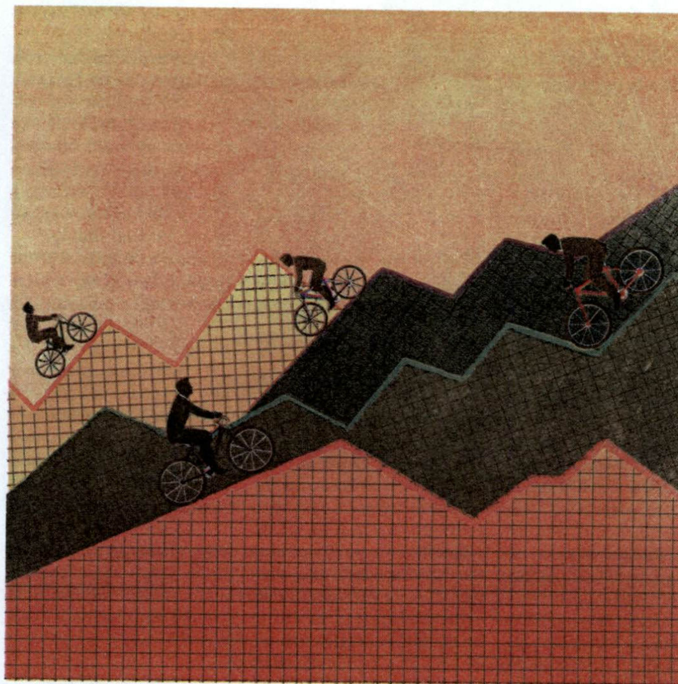
INSIDER'S VIEW

Carrie Coghill

This exercise of discipline caused me to approach investing by always seeking facts and supporting data. In doing so, I've built a massive binder in which I keep charts, graphs and other materials that can help in providing support to my thinking and help clients find clarity. Some of the materials in this binder date back to the late 1980s.

Now that I've dated myself, there's no harm in telling you that one cartoon I reminisce over from that era shows a guy sitting in a chair, watching a news anchor on TV. The anchor is saying, "On Wall Street today, news of lower interest rates sent the stock market up, but then the expectation that these rates would be inflationary sent the market down, until the realization that lower rates might stimulate the sluggish economy pushed the market up, before it ultimately went down on fears that an overheated economy would lead to a reinstatement of higher interest rates."

Clear as mud, right?



I have empathy for investors who are understandably baffled by the history of the markets and economics. It's scary because investors feel, in part due to media hype, that this is the first time we've faced such up-and-down drama. The cartoon is still relevant today, as it speaks to the challenges of managing interest rates and monetary policy. After all these years and with a different set of circumstances, the fundamentals of investing and economics have remained intact: Unpredictable. Binder worthy.

So what do we do? Volatility in the markets has picked up significantly over the past couple of months. And, it is not just the stock market, it's the bond market and others, like commodities.

Let's focus on the bond variable. There is speculation about the Federal Reserve "tapering" their bond-buying program. This was put into place to keep interest rates low with the hopes that low interest rates keep financing costs down for businesses and individuals, therefore, stimulating the economy. Potential tapering of the program has caused investors to be concerned that the economy will suffer because interest rates would start to float higher.

On June 19, the Fed made a significant change to its outlook on the program, implying that we may be growing close to the taper. Statements changed from "continuing to see downside risks to the economic outlook," to statements about "downsides diminishing" for the economy and labor market.

However, the Fed isn't doing anything yet, and what some are neglecting to realize is that Fed Chairman Ben Bernanke identified three measurable steps that must occur for such tapering to start. Taper would occur if growth picked up; unemployment continued to decline; and inflation picked up. And yet, markets are reacting as though these things already have happened. From my perspective, we first want these "ifs" to happen and we want the patient — our economy — to get off of the life support of the Fed.

At the end of the day, I feel we are approaching the end of this ultra-low interest rate environment, and for good reason — the economy is healing. And if the "ifs" happen, corporate America should be able to manage because economic activity should continue to improve. It's all a balancing act.

In light of where we sit today, it's my view that investors should be reviewing their portfolios to identify and understand the implications that higher interest rates will have. The Financial Industry Regulatory Authority has already issued an Investor Alert on the risks associated with bonds, which is particularly unsettling, because it's usually the conservative investor who owns bonds.

It's important to be proactive when it comes to investing. In addition to bonds, other interest rate-sensitive investments should be reviewed at this time. So, do the research, build the binder, and establish credibility and confidence in your portfolio. Similar to a patient being removed from life support, an investor needs to understand and monitor the vital signs to manage their way through.

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