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Financial Advisers Hunker Down for Rocky Autumn

By Jessica Toonkel
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(Reuters) - With the Labor Day weekend marking the end of summer in the U.S., financial advisers are bracing for a rocky autumn. Equity markets have been surprisingly quiet the last three months following three volatile summers. But many financial advisers believe the upcoming Presidential elections, ongoing concerns about the European economy and shaky U.S. economic indicators mean investors are in for a rude awakening.

"Everyone is kind of freaked out," said Scott Tiras, a Houston-based adviser with Amerprise Financial Inc, who manages $1 billion in client assets. "There hasn't been much volatility, but with the lagging economy, the fiscal cliff and what is likely going to be a contentious election, we know it's coming."

BUCKLING DOWN

For many financial advisers, the slow summer was full of anxiety as they waited for the other shoe to drop. In summer 2011, the Dow Jones Industrial average saw multiple days of 400-plus point swings and startling economic headlines from Europe and the U.S. - including a downgrade of America's credit rating.

This year George Kiraly Jr., president of Short Hills, New Jersey-based LodeStar Advisory Group, LLC, kept a close eye on the CBOE Volatility Index, or VIX, which tracks expected volatility of the S&P 500 stock index. When the VIX hit 13.45 on August 17, an all-time low since June 2007, Kiraly took action. "That's when I really started adding hedges to my clients' portfolios" to protect clients' from wild swings in U.S. stocks, said Kiraly, who has $15 million in assets under management. Kiraly has added Pacific Investment Management Co's StockPlus TR Short Strategy Fund, which takes short positions on the Standard & Poor's 500 Index, but is backed by a fixed income portfolio that pays dividends. "If a market shock were to occur, it should help to protect client portfolios," he said.

Similarly, Scott Barkow, a financial adviser with Raymond James & Associates, the brokerage subsidiary of Raymond James Financial, has spent the past few weeks adding stop loss orders, automated orders designed to limit investors' losses by selling securities when they hit a certain price. For clients who already had these orders in place, Barkow has been lowering the loss required before the orders kick in. For example, clients whose stop loss orders kicked in at a 10 percent drop in a stock price, now kick in at a 7 percent loss. "We know what's coming and we just want to be prepared," said Barkow, who has $210 million in assets under management.

To that end, some advisers, like Chris Shumacher, an Ameriprise Financial adviser in Columbus Ohio, are moving clients out of equities into fixed income and cash. Over the past few weeks, Shumacher has flipped his clients' allocations - to 30 percent equities, 70 percent fixed income and cash from 65 percent equities, 35 percent fixed income and cash. Shumacher, who has $105 million in assets under management, is particularly concerned about the near-term, as the European Central Bank announces its plans for helping Europe on Thursday, and August economic indicators, like the unemployment figures, are released in the U.S. "I think September has a tough time ahead of it," he said.

Many advisers aren't moving to cash, but are increasing client allocations to more conservative stocks.

Tiras has shifted many of his clients from small-cap growth stocks and funds, which tend to be more sensitive to market volatility, in favor of higher dividend-paying stocks and funds, like those in the pharmaceutical and oil sectors.

Similarly, Frank Fantozzi, chief executive of Planned Financial Services, a Cleveland-based wealth manager with $275 million under management, is moving his client money into sectors like technology and industrials, which he believes tend to be less impacted than others by November's elections. "Sectors like energy and managed care tend to be particularly volatile during Presidential elections, so we are staying away," he said. He has increased clients' allocations to the Allianz RCM Technology Fund and BlackRock Inc's iShares Dow Jones U.S. Industrial Sector Index Fund.

A number of advisers are also telling clients to wait until after the elections to invest big chunks of new money. Instead, a number of advisers interviewed by Reuters said they are dollar cost averaging their clients' cash into the markets over the next few months to help minimize clients' exposure to big swings in the market. Dollar-cost averaging is the practice of investing money to work in small amounts over a period of time.

"We usually don't dollar cost average, but with all of the uncertainty around the elections and the tax rules, we think it is wise this year," Barkow said.