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Ticker

COLORADO'S BEST, WORST PERFORMERS

QUARTERLY MARKET REPORT

EXPERTS WEIGH IN

[March 31, 2007]

What's an investor to do in a volatile market? Investment pros give their take on factors to keep in mind.

	Question: What's the best investment strategy if a slowing economy becomes a more significant worry?	Question: What stocks and sectors are poised to fare well and what should investors avoid?	Question: Is a more defensive stance toward the stock market justified right now, or not?	Question: Is there a better alternative to the U.S. equity market now? What about overseas?	Question: Will housing market woes drive the economy into a recession?	Question: Have you tweaked your holdings or strategy in the past few months? If so, how?
Ned Sundermann President, Sundermann Capital Management	You should balance your portfolio's equity exposure with fixed income, such as bonds, preferreds, convertibles and high-yielding stocks. This should reduce risk and give you a reasonable total return from a combination of income and long-term growth. Exposure to overseas markets may offer some protection, providing they don't suffer from contagion.	Stocks of consumer nondurables and basic services such as food and beverages, timberland, health care, utilities and telcos traditionally outperform in periods of uncertainty. Avoid the cyclicals, which would include retail, autos, consumer discretionary, financials, real estate, construction and commodities.	In our mind, the present level of valuations alone dictates a more conservative stance — it is apparent that risks are not being fully priced into the market. As Warren Buffett likes to point out, risk doesn't come from volatility. It comes from not knowing what you are doing — owning weak companies at high prices.	From a valuation standpoint, the alternatives don't look much better, but additional fixed-income holdings could improve total return and lessen risk. Also, it wouldn't hurt to spread some equity bets over developed foreign markets that have attractive growth prospects, such as Germany and Japan, to name a few.	The housing market problem is the headline risk. What is more worrisome is it will likely lead to a tightening of credit, resulting in a consumer slowdown and lower corporate profits. Two overlooked but disquieting problems are geopolitical risk and slowing productivity. Things happen, and smart investors are always prepared for the unexpected.	There has been some profit-taking when stocks reached sell targets. For protection, we have written options against several reasonably-priced holdings, and cash has been allowed to build while we wait for prices to drift down. Some cash has found its way into preferred stocks yielding 7 percent to 8 percent to provide stability.
David Peterson President, Peak Capital Investment Services	I don't believe the slowdown in the economy will be significant. My feeling is the economy is more likely to experience the proverbial "soft landing." However, if the economy slows, the Fed likely would ease interest rates. Bonds have been the worst-performing asset class over the past four years, and a drop in rates would spark a bond rally.	Value stocks have outperformed growth by a significant margin over the past three years. Growth and value typically swing back and forth like a pendulum. I believe the pendulum is about to swing back in favor of growth, so I would reduce exposure to value. I would also avoid gold.	No. I believe the market will continue to move higher. We had a bit of a correction a few weeks ago, which is healthy over the long term. I believe corporate earnings for the first quarter will surprise many analysts and continue to be quite strong. This should continue to fuel the bull market.	For diversification, I always believe investors should own international stocks, and over the past three years, international stocks have outperformed the U.S. International stocks tend to be extreme, either outperforming or underperforming the U.S. market by a significant margin. In light of the past three years, I believe the U.S. market will outperform.	The housing market remains a concern, and although it is weak, it is far from dismal. I do not believe this one segment of the economy has the power to drive the entire economy into recession. I believe earnings will continue to be strong and with the fourth quarter final GDP numbers coming out stronger than expected, I do not believe a recession is likely.	No. We have not changed our strategy. We believe a broadly diversified portfolio is in the client's best interest. At this point though, our portfolios continue to favor growth over value, but it is always important to have both of these styles represented.
Greg Evans Vice president of investments, the Millstone Evans Group of Raymond James	The best strategy is to buy quality businesses at discount prices and hold on to them for the long haul. What you don't want to do is trade out of a quality company and go into bonds or some other investment with the idea you [illegible] back in at the lows.	Investors should use the pullback to buy or add to quality businesses selling at discount prices. Investors should avoid businesses trading at prices above their intrinsic value. If the economy slows further, economically sensitive stocks will probably decline more than [illegible] like consumer sta- [illegible]	No. U.S. stocks have been substantially undervalued since 2002 and continue to offer attractive long-term value. The 10-year Treasury bond yields 4.6 percent today while the S&P 500 offers an earnings yield of 6.8 percent, which is based on expected earnings for the next 12 months. In addition the yield on the Treasury will stay flat [illegible] the next 10 years, and the S&P [illegible]	There are still attractive opportunities overseas, but the U.S. market offers the best valuations today, especially in large-cap growth. This sector has underperformed for six years now and valuations are very compelling.	The odds are against it. Housing represents less than 6 percent of the GDP. Thirty-five percent of all homeowners own their home outright, and of the 65 percent that have a mortgage, 76 percent are rated prime borrowers. The five states with the biggest problems are Mississippi, Louisiana, Ohio, Michigan and Indiana, which ties into Hurricane Katrina and the auto market. Furthermore, the job market remains very strong.	No. The strategy of buying quality businesses at discount prices has not changed. I have utilized the current market pullback to add to several positions and would continue to buy if lower prices ensue. It is very important at times like this to think long term and not get wrapped up in the short-term setback.