Financial advisers, analysts shrug off recession fears

Discounting the fears as noise and political bluster

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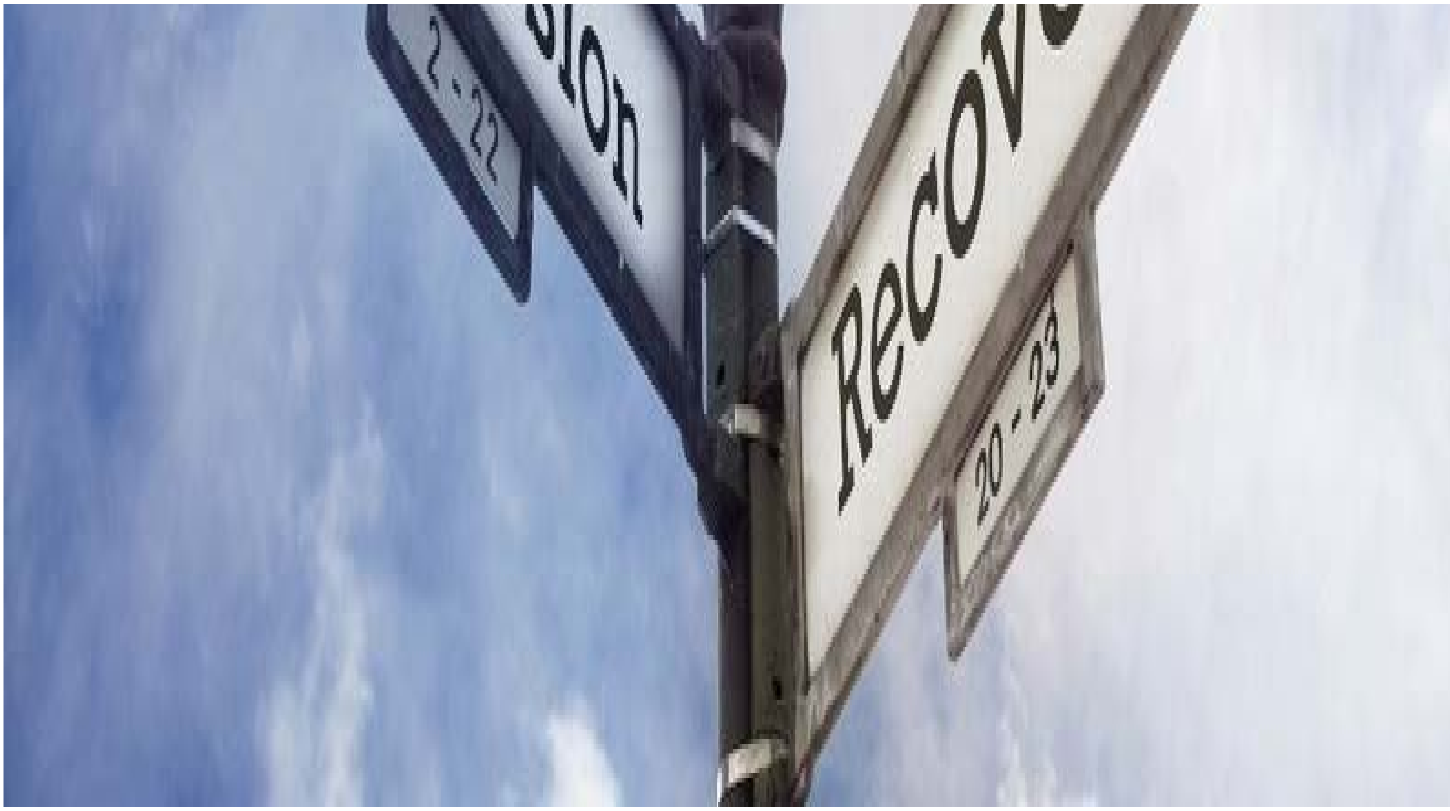
By **Jeff Benjamin**



Meager economic growth and political fear-mongering aside, financial advisers shouldn't be overly concerned about the threat of a U.S. recession.

The financial market volatility that kicked off in earnest since the start of the year has triggered a steady drumbeat of fears that the U.S. economy is heading toward a recession, but market analysts and a lot of financial advisers says it's just noise.

“The markets are volatile and people are trying to explain that, and a pending recession is a logical explanation as long as you don't look at the underlying data,” said Jonathan Golub, chief equity strategist at RBC Capital Markets.

“If we were really heading toward a recession, you would see something in the markets much more severe that what we're seeing,” he added. “What you really have is the most important commodity in the world (oil) has gone from $145 a barrel down to $26, and that is incredibly destabilizing.”

The S&P 500 Index is down 4.3% from the start of the year on **the kind of volatility that it hasn't seen** in several years.

But part of what is driving up recession worries is the stubbornly slow recovery since the financial crisis.

Over the past 50 years, the U.S. economy has grown by an average of 3.5%, including paces of more than 4% during recovery periods.

But over the past seven years, the economy has been growing at around 2.25%, or about half of where it should be at this point in the cycle.

BUMPY RIDE

Benjamin Mandel, global strategist at JPMorgan Asset Management, called the financial market volatility both the symptom and the cause of an apparent increase in recession risk. But he added that he views that risk at only between 15% and 20% this year.

Among financial advisers, the **talk of recession has been cropping up**, but, like most market analysts, it is being gently tamped down.

“It is just noise, because it's the political season and you have to make things dark and gloomy if you want to get elected,” said Kashif Ahmed, president of American Private Wealth.

Similar **sentiment was echoed by Warren Buffett** over the weekend, as part of his annual letter the Berkshire Hathaway shareholders.

Mr. Buffett advised against following the financial analysis of people who are solely interested in being elected as the next president.

Rose Swanger, principal at Advise Finance, said even though she has been hearing reports of “the R-word, I have yet to see it or believe it.”

“So far, what I have seen and read from various sources confirmed that the U.S. economy is not in that bad of shape, from the home prices, wages, jobs, and even consumer balance sheets,” she added. “Personally, I don't see the recession coming, but I do ask and warn of all my clients to buckle up for the near-term bumpy rides.”

DOWNSIDE PROTECTION

According to Mr. Mandel of JPMorgan, the U.S. has weathered four recessions over the past 35 years, or roughly one every seven years.

“We believe that the current cycle is poised to be a relatively long one by historical standards, but recent tightening in financial conditions has pushed recession risk marginally above its long-run unconditional average,” he wrote in a report on Monday.

Fears of recession have started to crop up in conversations with clients, according to Thomas Balcom, founder of 1650 Wealth Management.

“Recession fears have certainly been a topic of discussion with many of our clients, and that's why we focus on incorporating investments such as structured notes that provide our clients with a hedge or level of protection during recessions and declines in the market,” he said. “With the recent volatility in the stock market, our clients are much more willing to give up some upside for more downside protection.”

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