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Market volatility has some advisers tactically buying stocks

Factoring in Fed policy, cheap oil, and living with volatility

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Despite the January ruckus, that saw the S&P 500 Index fall by 5% on extreme volatility, most financial advisers are calmly sticking with their plans and keeping things in perspective.

“For us, the most important thing is we don't think this is 2008 all over again,” said Jonathan Swanburg, financial adviser at Tri-Star Advisors.

“There don't seem to be any fears about a complete financial market collapse or concerns about how far down things could go,” he added. “We're not in that situation today; right now we see some of these down days as buying opportunities.”

As with any periods of increased volatility, Kashif Ahmed, president of American Private Wealth, is reminding clients that this isn't a market for those with short time horizons. But he also isn't running for cover while **waiting for the dust to settle.**

“There are always buying opportunities after a pullback, but one needs to be very careful,” he said. “For those in the accumulation phase, I say, continue accumulating, and if you have a time horizon of at least three to five years, there are plenty of buying opportunities right now.”

While Mr. Ahmed describes himself as “definitely not adventurous,” he said for those who are, he would recommend diving into the emerging markets, minus China.

He also sees “plenty of opportunities in high-yield bonds.”

“This is not a market for people a 1-year time horizon,” Mr. Ahmed added. “There is still a lot of uncertainty, and a lot of people are wishfully speculating and hoping the Fed will put the brakes on its plan to keep hiking interest rates.”

Along those lines, Bob Rice, chief investment strategist at Tangent Capital, said much of the market volatility can be attributed to a slow and painful move away from a **Fed-driven market**, toward a stock market driven more by fundamentals.

“We're going through a huge transition period away from pricing the market off Fed policy, and toward a period back to where things are priced off fundamentals,” he said. “This volatility is real, it's not an accident and it's not just making a cameo appearance right now. But volatility doesn't mean stocks will go down, it just means they're volatile.”

The increased level of volatility, Mr. Rice added, will pave the way for more stock picking, and less riding the waves on broad-market indexes.

“The averages will muddle along, and they will be deceiving, and I think we're going to see a continuation of those kinds of trends,” he said. “We're not back to the days of buying a basket of securities and just watching them go up, and I think over the next couple of years stock picking will become the thing again."

Even while Mr. Rice believes the market is trying to separate from the **Federal Reserve**'s monetary policy, the market is still expected to be sensitive to what is the first rate-hike cycle in a decade.

The Fed's quarter-point hike in December was essentially shrugged off by the financial markets, but as the Fed moves forward with the delicate balancing act of trying to raise rates this year while most the global economies are cutting rates, the U.S. markets are expected to react.

"I think the Fed is late to the game, and I think they won't raise rates as much as they forecasted at the September meeting," said Mark Travis, president and chief investment officer at Intrepid Capital.

"I think we're in store for more downside volatility," he added. "And if the Fed keeps doing what it's doing [by raising interest rates into a weak economy with a lot of debt], I think we're going to have the same problems they're facing in Japan."

At the time of its quarter-point rate hike, the Fed's public comments suggested there could be eight rate hikes over the next two years, including a 2016 target rate of just above 1%.

Last week, the Fed dialed back its rhetoric slightly, presenting a more dovish tone.

Then, there's the **closely-related factor of oil prices,** which have climbed off a recent low of less than $30 a barrel, but are still a long way from a level that most of the U.S. energy complex needs to operate at a profit.

"Energy and anything associated with energy has been hit pretty hard," said Steven Wruble, chief investment officer at RiskX Investments.

Mr. Wruble's technical analysis points to a "very weak market, no question."

"We haven't seen this much downward momentum since 2011, and the short-term moving averages haven't been this negative since 2008," he added. "Based on where we're at with this volatility, I don't think this is a time to get in there and play around, but if you're in the mood for some opportunistic buying and you've done your homework you could buy some stuff that's down 10% or 20% from recent highs."

The dispersion is not only stock specific. The market is also producing sector swings.

In January, for example, the materials sector was down 12%, while the utilities sector was up 3.6%. And the energy sector was off just 4%, illustrating the lagging effects of cheap oil prices.

Rose Swanger, principal at Advise Finance, said she is paying close attention, and is still putting money to work for her clients.

"I'm not going full throttle right now, but I am taking my time and not just dollar-cost-averaging into the market," she said. "I'm looking at specific sectors, and I'm looking for the lowest prices, based on 52-week lows. I'm always cautious, but I'm trying to be optimistic at the same time."