“A Slow Moving Train Wreck”

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Scott Noyes thinks bad times are heading our way, and we should lighten up on stocks—which he believes have 8% to 10% more to fall in 2008. (He gave a talk on Monday, Jan. 7.) The Standard & Poor’s 500, he predicted, will decline to the low 1,200s (or high 1,100s), and the Dow Jones Industrial Average to 11,800.

“We’re six years into the recovery, and recoveries usually last four years,” he said. “So it’s long in the tooth, and we are starting a normal cyclical slowdown. We’re in the early stages of a multi-year bear market, a slow-motion train wreck, that should extend through 2009." One piece of evidence: Dow Theory has issued a major bear-market signal. Noyes' own prediction: The bear will linger a year or two, starting later in 2008 and lasting into 2009.

Another prediction: Foreign markets will fare only a little better.

A money manager, Noyes has been selling small and mid-caps, along with financials, and generally lightening up.

What looks good now? Energy and commodity stocks (oil will soon reach $120 a barrel, he believes), along with high-quality bond funds. Noyes expects more credit trouble with financial stocks in 2008, but intends to be a buyer later in the year--ideally at prices 15% to 20% below current levels.

Some stocks that may then start to look appetizing are: AIG when it drops to the low or mid-$40s, Citicorp in the low $20s, American Express at $40 to $42, Morgan Stanley in the low $40s, Goldman Sachs at $160, Vornado Realty at $72.

In general, he likes high-dividend-paying stocks, along with municipals, TIPs, and foreign bonds.

Noyes, a fee-only financial planner with both a CFA and CFP whose office is in New Vernon, N.J., said his typical client is usually 60% in stocks. During tough times, he intends to reduce that to an unchanging 40% core-equity position.

As for emerging markets, he wouldn’t buy them now but likes them for the long term. Emerging-market stocks will grow from 5% of the world's markets to over 20% within our lifetimes, he predicted. (Vanguard Emerging Market ETF is among his favorite investments.)

As for the cause of the impending bear market, Noyes believes that too much liquidity for too long has been largely responsible, tempting investors everywhere to make imprudent decisions.

Noyes invests his clients mainly in mutual funds, and among his favorites are Fairholme, Janus Contrarian, Third Avenue Real Estate, Marsico 21st Century, Kinetics Paradigm, Fidelity Leveraged Growth, Royce Opportunity, Keeley Small Cap Value, Dodge & Cox International, TFS Market Neutral, Winslow Green Growth, William Blair International, along with ETFs and other index funds. For fixed-income funds, he mentioned Loomis Sayles Bond, PIMCO Total Return, Vanguard GNMA and Templeton Global Bond.

During a question and answer period, Noyes said there’s nothing wrong with putting together a portfolio of index funds. You can do it with just three ETFs, he said: Vanguard Total Stock, Vanguard Total International, and Vanguard Total Bond. “It’s a very valid way to invest,” he said.

Warren Boroson is a veteran journalist whose articles have appeared in Money, Consumer Reports, the New York Times Magazine, Reader’s Digest, and elsewhere. He has written over 20 books, including “How to Pick Stocks Like Warren Buffett.” His blog is www.warrenboroson.blogspot.com.