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Stock market pullback brings out the buyers

While some investors react with alarm to market decline, others see it as an opportunity to buy low

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By **Jeff Benjamin**

While some investors and market watchers are interpreting the latest stock market volatility as a call for caution, others see it as a rare opportunity to buy low.

"I probably carry more cash than I should in client accounts, but I do it for opportunities like this," said Paul Fenner, president and founder of Tamma Capital.

With the stock market nearly 10 years off its March 2009 bottom, advisers like Mr. Fenner believe it's important to take advantage of sudden pullbacks, especially for clients who are still in the accumulation phase.

With interest rates on the rise, Mr. Fenner has added to cash positions by trimming allocations to bonds.

"It's not easy to pull the trigger and buy when things are going down, and it doesn't mean things won't get cheaper, but you gotta have some courage to put some capital at risk when we have these pullbacks," he said. "The markets could bounce back as quickly as they did in February and March."

The S&P extended its October rout to 8.8% Wednesday, making it the worst month since February 2009.

That kind of volatility, especially in the midst of an historic bull market for stocks, has elicited the usual chorus of bear market forecasts.

But because a lot of investors have grown increasingly cautious as the bull market extended, the pullbacks now look like opportunities to some investors and financial advisers.

"We're seeing many investments that supported higher multiples coming back down to earth every day, so if we liked something at $100, why wouldn't we buy it when it drops to $80?" said Ian Weinberg, chief executive officer at Family Wealth & Pension Management.

"The fundamentals of this market and this economy have not changed, except for Fed speak, talk of trade wars and all the political stuff that's always there," Mr. Weinberg said. "We believe there is value in this correction. You can't time these things, and we certainly aren't selling here. Rather, we're buying or looking to buy more of the solid ideas we already have in our portfolios."

Across the industry, some advisers have clients sitting on cash because they've been nervous, while others are building cash positions by reducing allocations to bonds amid rising interest rates.

Looking across the market for opportunities, some categories have pulled back more than others.

Among U.S. equity funds, the small-cap value category as tracked by Morningstar is down 4.2% so far this year, followed by mid-cap value, which is down 4%.

The best-performing domestic equity fund categories this year have been large-cap growth, up 6.7%, and small-cap growth, up 6%. But over the past 30 days, large-cap funds have declined 7.4%, while small-cap funds have dropped 10.9%.

Those kinds of abrupt moves look like an opportunity to Dennis Nolte, vice president at Seacoast Investment Services.

"If you're rolling money over and wondering what to do with it, this is not a bad time to invest in areas like small-cap stocks and emerging markets," he said. "I've been waiting for something like this, and I think it's a good time to sprinkle some money in."

Fixed income is the one area that seems almost universally out of favor.

"We've talked about using CDs instead of bond funds," Mr. Nolte said. "I wouldn't put anything in fixed-income funds with rates going up."

Back on the equity side, the most extreme pullbacks this year have been experienced outside the United States.

Morningstar's category of India equity funds is down 24.9% this year, and down 12.7% over the past 30 days.

Diversified emerging-market funds, which Mr. Nolte is eyeing, are down 16% this year, and down 7.6% over the past 30 days.

Kashif Ahmed, president of American Private Wealth, said advisers should be nimble during market pullbacks because this is when "we earn our fees."

"This is not about trying to time the market, which is generally a dumb idea," he said. "This is about offering you an opportunity to rebalance, which is what you should be doing because buy and hold and doing absolutely nothing to the portfolio is also dumb."

Fear and greed and courage and logic aside, anyone investing at this stage of a bull market has a deep-down belief that the pullback is a temporary disruption and not the start of an angry bear market nosedive.

"I don't think the bull market is over," said Paul Schatz, president of Heritage Capital. "We won't see a bear market until the second half of next year."

Mr. Schatz expects at least two more strong runs for stocks, peaking at the end of this year, then again in July, to about 2% above where prices are today.

The current pullback, he said, is nearing a bottom.

"There's enough evidence that says the market is in the bottoming process right now, and when it's complete we should have a strong last six or seven weeks of the year," Mr. Schatz said. "I could see stocks gaining 5% to 10% in the last seven weeks of the year. Until proven otherwise, the bull market lives on. It's old and wrinkly but not dead."