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Playing financial

With jittery financial markets and the roller-coaster Dow dominating economic news last week, I turned to two local experts for advice. They are Thomas McKeon, chief investment officer of West Chester Capital, and Marne DeSantis, principal.

West Chester Capital is a registered investment advisory firm with more than \$150 million in assets from individuals and institutions.

AmeriServ Financial acquired it in March 2007.

How does this sell-off affect me?

If you have a 401(k), asset balances will definitely look lower for the quarter, said McKeon. "But that's not permanent," he said. "It's just the way the markets are."

Stock values never increase in a straight line, but this past week they sure plummeted that way, at least through Wednesday, McKeon said.

In the short-term, "stock market movement is pretty random, and there's no way to know what it's going to do in the next 15 minutes, much less the next few weeks," he said.

The situation was magnified this past week because "market movements were quick, sudden and volatile," DeSantis said. That made many investors nervous.

What caused the sell-off?

Mortgage-backed securities are now radioactive, noted McKeon. "The problem started with subprime mortgages and has spread to all mortgage-backed securities. They're trading at 20 cents on the dollar. Everyone is forced to write down values, but clearly, it's overdone. Not every mortgage-based security is toxic waste, but they're being treated as if they are."

It's like this, McKeon and DeSantis said: You're playing musical chairs and the music has stopped. And now everyone is scrambling to find a chair.

Institutions are the last owners of mortgage-backed securities and they're the ones that are really hurting. But, said McKeon, "The mortgage business and housing are fundamental to this country and both industries will survive."

What should I do with my investments?

The short answer is: Nothing.

"Make sure you're diversified enough so that you can endure weeks like the one just past," McKeon said. If your tolerance for risk is low, look for safer investments. Right now, stay put. Keep up your 401(k) investment plan, if your employer offers one, and stick to your investment goals. Don't do anything rash.

When global financial angst calms down, be sure to give investments the eagle-eye: Are you truly diversified? Maintain holdings in large and small-cap stocks, growth and income companies, international markets, bonds and cash. Treasury bills, CDs and money-market accounts are safe right now but may not grow your money as much as the stock market once did.

I don't understand why a company like Merrill Lynch had to sell. What happened?

"Merrill Lynch wanted to survive, in some way, but it had the same sort of balance sheet destruction that other companies have had," McKeon said.

Earlier this summer, for instance, it sold \$30 billion in mortgage-backed securities for \$6.7 billion, just to get them off its books.

When balance sheets are under such severe pressure, you need to take drastic measures to simply keep the lights on, DeSantis explained. "The more your stock declines, the fewer options you have. Merrill Lynch had to do something to stop its death spiral."

Essentially, "Merrill Lynch gave away a world-class name and franchise for one-quarter of what the stock was worth a year ago," he continued. "Perhaps the brokerage house was smart to find a non-government buyer in Bank of America, one that has cash."

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Financial markets "are screaming for more regulation and better referees," McKeon said. "We would be well-served by more regulatory responsibility. "What is called the 'Citicorp Relief Act,' only half in jest, deregulated the securities and banking industries and allowed stocks, banking and insurance businesses to combine. Perhaps that needs to be revisited."

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