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EXCLUSIVE: Falling markets no reason for panic, Cincinnati expert says

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The stock market's steep dive to start 2016 has churned the stomachs of many investors, but Terry Kelly of Bartlett & Co. isn't worried.

Kelly, principal and investment adviser at the Cincinnati-based money management firm, told clients at Bartlett's well-timed 2016 market outlook event on Thursday at the Queen City Club that there's no reason to be concerned despite the stock market's 9 percent decline to start the year.

Terry Kelly is a principal and investment adviser at Bartlett & Co.

"It has been a rotten start to 2016," Kelly told the crowd. "But the data suggest there are opportunities for patient investors."
Those data include reasonable valuations, with the market's price-earnings ratio about at its long-term average.

"It's certainly not at extreme levels that accompany market tops," he said.
Plus, historical stats show stocks average an annual gain of nearly 11 percent in the first year of Federal Reserve rate hikes if those interest rate increases are slow and steady. That's how most experts see the Fed acting this year.
"There might even be a bit of an overreaction as far as the stock market is concerned," he told me after the presentation.

Still, investors are clearly concerned with the market's plunge after seeing their portfolios take a hit this month. The second question from the crowd was, "Is this another 2008?" That refers to the crash of more than 40 percent from the time the financial crisis hit full roar in September 2008 until the market bottomed in March 2009.
"We don't think so," Kelly said. "There are some significant differences. 2008 was a systemic issue fueled by debt. We do not believe there are conditions or indications that we're looking at that type of market. That type of economic environment simply doesn't exist today."

Kelly wasn't going out on a limb to predict how stocks will do this year or when the decline will end. He isn't overly confident, but he's not expecting a huge drop either.
"We're cautiously constructive," he said. "The three big factors – the decline in oil prices, change in Fed policy and concerns about China – are starting to be priced into the market," he said. "We're not bearish, but we're realists. In the long run, we feel pretty good."

In 2000 and 2007 when stocks got slammed, eight indicators of a bear market were all in place. Just two were in effect last year, but five are now present. The three new ones – slowing upward earnings revisions, fewer stocks making new highs and wider credit spreads in the high-yield bond market –

are cause for concern, he said.

“Those are increasing our cautious stance in 2016. However, we do not believe we are in bubble territory,” he said, referring to the bursting market bubbles of 2000 and 2007.
In fact, he’s telling investors to keep their exposure to stocks at the target level. If their plan is to put 60 percent of their investments in stocks, that’s where they should be. That hasn’t officially changed, although some investors’ portfolios got above target levels in recent years as stocks gained in value. For them, Kelly is advising them to cut back their stock holdings a bit.

Where should investors put their money? Kelly identified a few industry sectors that are considered defensive, meaning they offer relative safety when economic growth slows. Health care, consumer products and technology are all areas where Bartlett is advising clients to invest in stocks.

“We think the better opportunities are in the defensive parts of the market where risk is less and valuations are reasonable,” Kelly said.
He pointed to Cincinnati-based consumer products giant Procter & Gamble Co. (NYSE: PG) as a prime candidate in struggling markets.

“P&G hasn’t been anywhere near as volatile as the rest of the market,” he said.
In fact, it declined less than 5 percent so far this year through Wednesday’s close even as the S&P 500 fell 9 percent.

Watkins covers banking and finance, insurance and sports business