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# Is a market correction coming?

## Advisers share strategies to help investors prepare

By KRISTEN D'ANDREA

CRAIG FERRANTINO: The markets have been resilient despite major events, such as the downing of the Malaysia Airlines plane. Photo by Bob Giglione

Recently, speculation of a stock market correction has been widespread. As stocks continue to edge up, reaching new highs, investors are increasingly complacent and less than fearful. In fact, individuals borrowing money to buy more stocks have created a high margin debt, and IPO activity is increasing as more companies go public. All of these factors, many financial industry insiders agree, are setting the stage for a possible surprise pullback.

"A market correction is always coming," according to Joseph De Sena, president of Siena Wealth Advisory Group, a private wealth advisory practice of Ameriprise Financial in Melville. Defined as a 20 percent decrease in the stock market, corrections take place every five years, on average, he said.

"The problem is you never know when the next one is coming," De Sena added.

Craig Ferrantino, founder and principal of Melville-based Craig James Financial Services, is a bit more skeptical.

"I don't buy into [the hype about a correction coming]," he said. "I understand we are at new highs, but I don't believe every time we hit a new high we'll crash back to where we were in 2008. We are catching up to where we should have been in 2009."

Ferrantino added, "I'm getting bored with waiting for things to go wrong."

While he concedes trading is generally lighter in the summer, the markets have been resilient lately in the face of some big international news, such as the downing of the Malaysia Airlines plane last month. Additionally, merger-and-acquisition activity is picking up.

"You wouldn't have M&A activity unless you felt strong going forward," Ferrantino said.

While no one can predict for certain if and when a correction will occur, financial advisers recommend several hedging strategies that could soften the blow.

Those who have 30 to 40 years until retirement should take advantage of corrections, De Sena said, adding they can buy stocks and mutual funds at inexpensive prices during a correction.

"They have no need to panic," he said. "They may live through several corrections."

Investors closer to retirement – who need their money sooner rather than later – may approach a correction differently, however.

De Sena recommends investors rebalance their portfolios at least on an annual basis. A portfolio that was allocated 60 percent stock sand 40 percent bonds two years ago, would be 80 percent stocks and 20 percent bonds today if it hadn't been rebalanced, he said. Rebalancing takes the gains off the table and prevents investors from taking more risk than necessary, he said.

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# Strategies to reduce risk in case the markets head south

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Another tactic, De Sena said, is using annuities, which offer a guarantee of income for life.

Always having an adequate cash reserve is a good strategy, particularly when the market is down, De Sena said.

"We recommend retirees have two to three years of what they need to cover their expenses in a safe place," he said. In doing so, they lessen the chance they will have to sell stocks or bonds while they're down.

Regardless of how the market is doing, part of having an adequate cash reserve involves determining the purpose for investors' money, De Sena said. If a client's goal is to use the money in five to 10 years, he will recommend a more conservative approach.

Peter Klein, a partner and managing director of HighTower's Klein Wealth Management in Melville, prefers a tactical allocation model when advising clients about their assets. Similar to a strategic allocation, which involves assessing an individual's risk tolerance and objectives and developing a distribution that meets those goals, a tactical allocation also takes into account what is going on in the world.

"I don't consider that timing the market," Klein said, noting critics often call out those who try to time the market, claiming it doesn't work. "I think that's being a good steward."

A steward of other's assets – charged with the responsibility of making and protecting their portfolio – must always be aware of the risks in the markets, Klein said.

"Today's proactive financial adviser must be mindful of the environment in which they work – for example, the global markets," he said.

Today's environment is composed of a fairly manufactured economy, created by the Federal Reserve. The lowering of interest rates to spark the economy has led to an unusual situation that brings potential risk, he noted.

As part of his tactical allocation model, Klein may recommend that clients who would normally have 60 percent of their assets in stocks lower their allocation to 40 percent equity. As a steward, he said he would question his client having a high percentage in equity markets, given the Fed could increase rates and a correction could occur at any time. He recognizes if his concerns are unwarranted and the market keeps going up, his client could miss out on some returns.

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"Sometimes that's not so bad," he said, adding it could remind investors to focus on the end, rather than the short, game.

"The primary concern as an adviser sometimes should be more focused on risk management than return management," Klein said.

Ferrantino also advocates for a tactical approach. Rather than sitting back and watching a client endure a 40 percent decline in his or her portfolio, he recommends lowering clients' risks while still participating in the market. In 2008, advisers who told clients the markets would come back were right, he said. Yet, investors who stuck it out had to experience a great deal of pain over the years.

"If they had gotten out when the market went 10 to 15 percent south, they were in better shape," he said.

In today's environment, "we're going until we don't want to go anymore," he said. "If we don't like the market, we'll sit in cash." Not about timing the markets, it's about making decisions to protect clients' assets, he said.

As for the looming correction: "Nobody's running for the exit," Ferrantino said. "There's no fire in the house. I just don't see it. But, if we're wrong, we're limiting the damage. And, that's the key."