Investment adviser sees reasonable market growth

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BEAVERTON -- The U.S. economic situation is chaotic, and many people are flummoxed about what to do with their investments. Dan Sharp, a money manager with a keen interest in history, has some words of wisdom.

"Those who understand history can take advantage of it rather than repeating it," he says. Sharp runs Beaverton's Sharp Investments with his wife, Betsy. The couple started the firm in 1995. Dan Sharp, 40, says his father, a mathematician and former Boeing engineer, inspired him to become an investment adviser. After losing his life savings in a bank failure during the 1960s, his father was left with $2,000 to invest, Sharp says, which he turned into a seven-figure portfolio during 20 years. With his father's encouragement, Sharp says, he has been investing since he was 10 years old. He became a money manager after a career as an engineer in the telecommunications industry. He has a master's in business administration from Seattle University and a doctorate in finance and economics from Portland State University.

We're on the brink of war with Iraq. More terrorism could be on the horizon. How should investors adjust their portfolios?

When you look at the last 100 years or so, the market reaction to war is not that different from the reaction to any big event. The immediate impact is usually negative for one to three months. When I researched 30 or 40 significant news events, I found that six months later the market was always higher than directly before the event.

To some extent, the market has already adjusted for the outbreak of war. But there will almost certainly be an initial sell-off. If it's a short, successful war, there is a high probability that the market will behave as it did after the Gulf War. After an initial shock, there was a pretty sound recovery.

There's a possibility, however, that if it turns into a longer, expensive war like Vietnam, it can actually divert economic production. That could hurt the stock market in the long run.

In this case, I think it's more likely we'll get a shock to the market, and then, after several months, the market will react positively.

What about terrorism?

That's a different animal. One month after 9/11, the market was higher that it was before. It just depends on the nature of the terrorism and whether it would have any long-term impact on the economy. Sept. 11 shook investor confidence but probably economically affected only the travel industry. But after about a month, the market had pretty much recovered.

Given what you've said, what should people be doing with their money right now?

Everyone's situation is different. There are really three different situations that most people are in: They have a number of crushed stocks that are mostly concentrated in technology, or they have a lot of cash and are on the sidelines trying to figure out when to get in. The third category is people who are already fully invested in a diversified portfolio.

What should people in each category do?

For the people with crushed technology stocks, they are never going to see 1999 prices on those again. What they are looking for is the appropriate time to get diversified. For them, I think that sometime between January and April there will be a good selling opportunity and a time to diversify. But waiting for Nasdaq 5000 values is a mistake.

For people sitting on the sidelines, the best opportunity was in September and October. September is traditionally the worst month of the year for the market. October has traditionally stopped a bear market. The odds were good that buying in September and early October would pay off, and indeed we are closing in on the seventh straight week of gains.

It's not quite as opportune a time right now. After Thanksgiving, we should get some tax-loss selling before year-end. That's when people with losses realize the tax benefits of taking the loss. People taking tax losses at the end of the year provide a buying opportunity for people with cash.

And, finally, I don't think people who already have diversified portfolios of reasonably valued investments really need to do anything right now.

What about people close to retirement?

There are some special considerations. Many people fail to start to change their portfolios to generate income five years before they need it.

In 1999, there were a lot of 58-year-olds who wanted to retire at 60. A lot of those people got greedy and saw that their portfolios were still going up at nice rates and decided to hold on for a while longer. They got caught, and now they can't retire.

Investors need to start thinking about wealth preservation five years before retirement.

What about interest rates?

Interest rates are extremely low, and Federal Reserve Chairman Alan Greenspan has signaled that they are done cutting rates. The likely scenario is that rates will go up as the economy strengthens.

When rates go up, bonds go down. Many people, because of fear of the stock market, have put money into bonds and bond funds. They are buying when prices are the highest. The bond market is going to work against them.

They need to watch for signs of the economy picking up, because the Federal Reserve will eventually raise rates. Once that happens, bonds are going to go through an adjustment period.

So what's the general forecast?

The forecast is that the economy is going to grow at a reasonable rate and not at a high rate like it did from the mid- to late 1990s. If we get economic growth at a reasonable rate, then we should see reasonable returns. But nothing like what we saw in the past.