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## Small-stock investors sticking it out

Individuals may be better able to handle stocks' wild swings because they have much less at stake than during the dot-com boom.
By Tom Petruno and Kathy M. Kristof, Times Staff Writers
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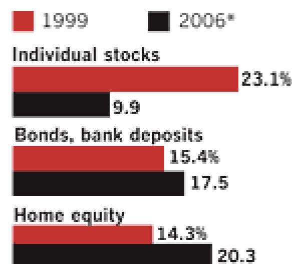


Rob Roberson says he learned a painful lesson about stock market swings in 2000 and 2001, when share prices were plummeting amid the dot-com crash.

He pared back his bet on stocks then and has kept it pared back. The 60-year-old Minneapolis salesman has more than half his assets in conservative investments such as bonds and money market accounts, and only about 45% in stocks, he says.

When the Dow Jones industrial average plunged 416 points Tuesday, Roberson said, "I called my broker and asked if someone had dropped a bomb." But he says he felt no need to make any changes in his portfolio.

Millions of average investors may be watching this week's wild stock market volatility with a similar sense of detachment.

Compared with 2000, when Americans were heavily invested in equities at the zenith of that era's bull market, stocks overall are a much smaller portion of people's assets today.

That means the market's gyrations don't have the same kind of effect on individuals' psyche that they did seven years ago — and that many small investors don't feel that they must react to stocks' sudden slump.

Individuals "have played it pretty conservatively" since the 2000-02 bear market, said Liz Ann Sonders, chief investment strategist at brokerage Charles Schwab & Co. in New York.

It's a much different story for hedge funds and other big players that have made major bets on stocks worldwide since 2003, often with borrowed money. With concern rising that the U.S. economy could fall into recession this year, some of those players are fleeing the market. That's what is driving this week's global sell-off, analysts say.
The Dow index tumbled more than 200 points at the opening of trading Thursday, threatening another huge decline, until an upbeat report on U.S. manufacturing activity helped pull the market up from its lows.

The Dow closed down 34.29 points, or 0.3%, at 12,234.34. Its loss for the week so far: 3.3%. Some analysts say that hedge funds and other private investment pools that aggressively bought stocks in recent years — hungry for high returns — will have no choice but to cut back further to reduce their risk of potentially fatal losses.

For investors who are loaded up with high-risk market bets, "This unwinding is going to be akin to what happened after the dot-com bubble," said Marshall Front, chairman of Front Barnett Associates, a Chicago-based money manager.

By contrast, Sonders said she found no sense of panic when she met with more than 300 of Schwab's high-net-worth clients in Southern California on Tuesday evening and Wednesday.

When she asked whether investors had made any portfolio changes because of the market's slide, "No hands went up," Sonders said.

Of course, any time the market takes a substantial drop it's bound to trigger selling by some individuals.

Domestic stock mutual funds had a net cash outflow of about $3.4 billion in the seven days ended Wednesday, the largest for any week since May, according to Trim Tabs Investment Research.

Still, Sonders said she believed that "very little of what's going on [this week] has to do with the average investor. "A few numbers from the Federal Reserve may explain why. The central bank each quarter lists the overall investment holdings of U.S. households. As of the third quarter of last year, the Fed estimated that Americans held $5.3 trillion in individual stocks. That was down dramatically from $9.7 trillion at the end of 1999, when the stock market was peaking. More striking, individual stocks accounted for just 9.9% of households' total net worth in the third quarter — down from 23.1% in 1999. Mutual fund holdings increased only modestly in the period, to 8.6% of net worth last year.
As stocks overall have fallen as a percentage of Americans' net worth since 1999, real estate has soared. The Fed estimated that homeowners' real estate equity — the market value of their homes minus mortgage debt — was nearly $11 trillion in the third

quarter, or 20.3% of households' net worth. That was up from 14.3% in 1999. Likewise, households' investments in bonds and bank deposits have risen to 17.5% of net worth from 15.4% in 1999.

Ed O'Hara, a financial planner at Capital Asset Management in Silver Spring, Md., said he and other planners had to beg clients in the late 1990s to spread their money around different types of assets rather than be concentrated in stocks.

Now, investors fully accept that wisdom, O'Hara said. "Diversification is the No. 1 goal, and they're asking about risk and taking steps to limit it," he said.

But the move away from U.S. stocks may have created new portfolio challenges for some small investors. With home prices continuing to fall in many regions, investors' anxiety over their real estate holdings could rise, making them less tolerant of losses on stocks and other assets. What's more, some individuals may have lowered their risk in U.S. stocks while raising it in foreign stocks by investing heavily overseas in recent years.

Americans pumped a net $356 billion into foreign stock mutual funds in the last two years, three times the $117 billion they put into U.S. stock funds, according to Financial Research Corp. in Boston.

Strong rallies in foreign shares have lured U.S. investors. But foreign markets tend to be more volatile than the U.S. market. Indeed, it was the Shanghai market's 8.8% plunge Tuesday that helped spark the global pullback.

Brent Kessel, head of financial advisory firm Kubera Portfolios in Pacific Palisades, said a continued global sell-off in foreign shares could pose a new test of investors' staying power in equities.

Even so, few Americans are invested heavily in just one foreign market or a handful of stocks, unlike in the late 1990s when people were focused on the tech sector, Kessel said.

Johnny Johnson was one of those tech victims. "I lost a lot of money in 2000 — I was almost all in tech," said Johnson, a 50-year-old registered nurse from Arlington, Texas. "That taught me a lesson."

Now, Johnson says, he has six months of living expenses in the bank as a financial cushion. His investment portfolio is 10% in bonds, 15% in foreign securities and the rest is spread among big, small and mid-sized U.S. stocks, and isn't concentrated in any particular industry, he says.

"The difference between now and 2000 is that I'm so much better diversified," he said. Although Johnson acknowledges that the true test of his investing commitment will come if stocks enter a prolonged decline, for the moment he said he's confident that a

diverse portfolio offers much more protection than he had seven years ago.
"I've got to look at this over the long haul," he said. "I don't need the money anytime soon, so I'm going to ride this one out."

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tom.petruno@latimes.com

kathy.kristof@latimes