Gaining Perspective
Market Insights from Oppenheimer Capital

# Keep a Long-Term Focus in Volatile Markets

**10/2/2008—Jeffrey Parker of Oppenheimer Capital talks about sticking with your long-term discipline and discusses what sectors are currently his favorites in this uncertain market.**

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**Worse before better**
In the near term, we are likely to see more bad news from an economic standpoint:

- Jobless claims should go meaningfully over the 500,000 level. Unemployment is currently at 6.1% and estimates go as high as 8%.
- We're in a recession. In Q4 we will have a negative GDP which will probably persist in Q1 and potentially Q2 of next year.
- Consumer spending will slow meaningfully.
- Inventories, which are typically financed via short-term credit lines, appear to be frozen up.
- Housing, which is the center of economic discussion, is likely to get worse before it gets better.

There is also the very distinct possibility that the Fed will cut rates. So we're in for some rough sledding, but keep in mind that the equity markets typically bottom first, and that is where we'll start to discount the recovery first.

**Indicating a bottom**
Some indicators suggest we may be close to a market bottom. Short-term interest rates are at an all-time high. Consumer confidence is below 55—this has only happened in 10 other instances, and in every instance the market has been up over the next 12 months. There is a tremendous amount of cash on the sidelines, the highest in the last 24 years. In fact, assets in money market accounts alone could buy 27% of the entire S&P 500 Index.

Also, there is over $2 trillion in hedge funds. The most recent number had the cash that those hedge funds held to be in the $600-$800 billion range, or roughly 30%-40% of hedge fund assets. A tremendous amount of cash on the sidelines usually typifies high fear levels, and historically anticipates market bottoms.

**Keep a long-term focus**
Historically, markets have bottomed halfway through a recession, and then recovered about 20% before the recession was over. So we anticipate some volatility between now and early next year. That is why it is important for investors to remain focused on the long term.

**Favorite sectors**
Our favorite sectors are currently energy, technology and health care. Energy fell significantly in the third quarter. It was the darling sector over the last few years. It might have been prudent for most investors to sell after the second quarter, after the huge rally we've had over the last few years, but we continue to like energy.

Technology is another sector that, although it has struggled, it has actually been an outperformer, relatively speaking. The growth in technology continues to have some of the best characteristics of any of the sectors that we look at, and valuations are favorable. The average tech company currently has about 15% of its balance sheet in cash. These companies are very well positioned from a balance sheet perspective. They don't need to raise capital, and although we will see slowing in the short term, longer term we still believe the trends in technology, from a growth perspective, are very strong.

**Financials face slow recovery**
The challenges we face in the financial system are going to take some time to resolve, and financial companies will need to figure out new business models going forward. There are certainly names in this sector that are oversold, representing opportunity and tremendous value. But in general, in our opinion it's going to be a slow recovery.



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**Rough road for consumers**
U.S. consumers will always amaze you and tend to outspend their income. But this is the first time in recent history that the straw may break the camel's back for the U.S. consumer. We've always had a poor savings rate in this country, and the excess spending fueled by easy credit will not come back any time soon for the consumer. Given the continued slide in home prices, we see a rough road ahead for the consumer. So we continue to be underweight in the consumer goods sector.

**Committed to discipline**
One of the things that Oppenheimer Capital does in difficult markets like this is that we continue to consolidate what we believe to be our best ideas and try to make certain that our best risk/reward companies are weighted toward the top of our portfolios. And above all, we stay committed to our discipline. We have a longer-term perspective, and it's tough in markets like this where you can get whipsawed. We know what we believe in.



**Past performance is no guarantee of future results.** The value of equity securities can fluctuate due to general market conditions not specifically related to a company, factors related to a company's industry or factors related to the specific company. Concentrating investments in individual sectors may add additional risk and additional volatility compared to a more diversified portfolio.

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