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Wealth adviser on shutdown: Don't panic

By Tim Loh

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  Peter Chieco, senior vice president and private wealth advisor for Morgan Stanley in Greenwich, Conn. Photo: Contributed Photo

For Peter Chieco, senior vice president and private wealth adviser for Morgan Stanley in Greenwich, the federal government shutdown is troubling, but manageable.

For one thing, the U.S. economy continues to grow, he said. For another, there have been 17 government shutdowns since 1977, so it's nothing unheard of. The longest such shutdown lasted 21 days in 1995 and '96. But Chieco doesn't believe that can happen again.

That's because on Oct. 18, the country likely will reach its borrowing limit. Failure to increase the debt ceiling before that would bring about unprecedented defaults on U.S. debt. Fears of that alone on Monday brought U.S. stocks to their lowest level in a month, as the Dow Jones Industrial Average fell 136 points, or 0.9 percent, to 14,936.24.

Chieco believes the haunting threat of default will cause even the staunchest Republicans and Democrats to strike a deal.

What follows is an edited version of Hearst Connecticut's interview Monday with Chieco about how the unfolding drama is affecting markets.

So, how stressful is your life right now?

My day is spent calming down the nerves of clients. We think this could go another eight, nine days (before politicians in Washington strike a deal). The calls are not just going to increase, but the fervor of the calls is going to increase. They're asking: "Should we be making portfolio changes? Should I sell stocks?"

And should they?

Our advice has been not to. We've got a good long-term plan, so stay tight. Once the storm is over, there will be greater clarity of opportunities. My position, economically, is that this (shutdown) is not a great threat to our recovery. We don't see a reason to change our plans for positioning our portfolios. We're looking for opportunities.

What would not raising the debt ceiling mean?

That has the potential to be catastrophic for this country. Not just for a short period of time, but over a longer period of time, the credibility of our country (is at stake). People all over the world have money in our Treasury securities.

A default would be the inability to pay the principal on those Treasuries or the interest when it's due, and the breaking of that backing and full faith of the credit of the U.S. would be catastrophic. And because of that, we do not believe, while the politicians may get close to the 11th hour, they would never allow it to happen.

I don't want to use the wrong term, but this is almost a thermonuclear option, right?

So what should investors do if this does happen?

It is possible we could go through this debt ceiling for a short period of time. But we think that would be fixed very quickly. This is more of a man-made problem, not as much of an economic problem. Not yet.

But we do think it would slow down the growth of this country, potentially putting it into a deep recession. If that continued, we would look to use that as opportunity for clients, who could potentially add quality companies on weakness.

What companies?

The industries we like right now are industrials, companies tied to the economy, certain retail companies. We're big fans of technology. But our bigger picture is, we think interest rates have bottomed. We're looking for companies that can stand out and grow.

So we still believe getting through this crisis, we'll have a continued slow recovery in the U.S. No one wants to see what's going on now, the ugliness of the politics.

Fairfield County has some of the world's most powerful bankers and hedge funds. What's going on behind their doors right now?

These successful, big, powerful hedge funds may have influence that goes beyond just their daily running of their businesses. Morgan Stanley has been encouraging all the employees in the firm to reach out to their congressmen and make sure they understand their viewpoint. The hedge funds in the area have a lot of inroads into politics, and they are making sure their voices are being heard.

From a business standpoint, they're doing no different than we're trying to do here. They're looking for opportunities. How are they benefiting from the crisis at hand? How can they benefit from the particular outcomes that can happen? Everybody is analyzing this based on, "What have we seen with these 17 other government shutdowns? What have we seen when we've come close to debt ceiling situations? Who has what contact into Washington? Can you get a handicap on how you think this might get resolved?"

So are we the laughing-stock of the world?

We are in a positive recovery. Globally, we've been a good story the last few years. Because we've been ahead of the curve in terms of when you look at Europe or even Japan or other countries like Brazil and India that are having problems. The U.S. has actually been a shining star and we've had a good recovery. And that's why our dollar has been strong and why our stock market has been good.

The macro picture and micro investing picture are frequently not aligned. When you look at companies in the U.S. in particular, they have really lowered their costs dramatically. They've really cleaned house, got their balance sheets strong. They have record amounts of cash. Interest rates being very low allowed them to refinance debts at very low levels. So they came out of this Great Recession we had much stronger. So despite the issues we're seeing at the macro level, they are still selling goods at a fair price for themselves and their shareholders. Dividends have been going up, the dividends have been paying. So generally, Wall Street, capital companies, are doing well.

Which brings us back to your main point?

Our advice is to not react on your emotions in the short run here. No matter the outcome, to resist the temptation to react based on your emotions, to sit back and understand what your goals are, and make investments based on that. The crisis of the day, even this one, will pass