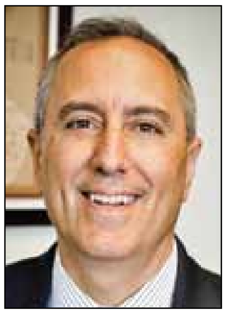
Opportunities Are Available With Equities Despite a Potential Correction



By Peter Chieco

What goes up must come down..at least a little bit. And that means it is time to be alert, flexible and ready to jump on a new opportunity.

Equity prices continue to hover near record highs as the economy shows signs of ongoing improvement. Applications for unemployment benefits fell to a five-year low this month. At the same time, the Commerce Department reported an increase in wholesale inventories, potentially a sign of positive economic growth because it suggests increased factory production, according to a May 10 article in The New York Times.

So, will equities continue to reach new heights? Is there a correction in the near future? Which way should investors turn?

It seems reasonable to expect at least a modest correction in equity prices over the next 12 months. But that does not mean investors should avoid equities and make a wholesale move into fixed income securities.

We are still in the throes of what the financial world has termed The Great Rotation–a shift from fixed income securities, currently with nearly universally low returns, to stocks in the hope of a higher overall yield, especially when factoring both potential capital gains and dividends.

Nevertheless, it is true that fixed income market performance has improved slightly, as bonds generally are more sensitive to economic growth than equities, which are more reflective of earnings performance. But that should not be taken as the start of a reversal in The Great Rotation.

There are still interesting opportunities in stocks, particularly in developing countries such as Mexico and India. A recent nationwide investor poll by Morgan Stanley found that many investors tend to shy away from such overseas investments despite the significantly higher growth rates in selected emerging economies. That hesitancy, it seems, is more based on emotion than fact.

$$$

Another area worthy of serious investigation is real estate. Real estate investment trusts (REITs) have generally been in line with the market over the past year. But interest rates are likely to remain low, allowing these real estate investment firms to obtain inexpensive financing. Construction remains limited, particularly in the commercial arena, so there isn't an overabundance of new supply. Combine that with the typically strong yields for REITS and it should be clear that REITs are worthy of serious consideration.

The Prudent Portfolio

Then there is the energy market. Analysts report ongoing substitution of natural gas for oil, in transportation, power production and a host of industrial processes. Investing in the gas industry can take many forms; transportation and production are just two options. There are many choices–and opportunities.

So while a correction may materialize at some point down the road, there are ways to prepare and to take advantage of the many opportunities that now exist in the marketplace.

Bedford resident Peter Chieco is senior vice president and private wealth adviser with the Private Wealth Management Division of Morgan Stanley Wealth Management in Greenwich, Conn. He can be reached at 203-625-4897.

Any information presented is general in nature and not intended to provide individually tailored investment advice. The strategies and/or investments referenced may not be suitable for all investors as the appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Investing involves risks and there is always the potential of losing money when you invest. The views expressed herein are those of the author and may not necessarily reflect the views of Morgan Stanley Wealth Management, or its affiliates. Morgan Stanley Smith Barney, LLC, member SIPC.