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Fall investment preview

by **Joseph R. Perone**/The Star-Ledger
Saturday August 30, 2008, 3:00 PM

Who knew U.S. presidential candidates Barack Obama and John McCain could be economic indicators?

Investors will be watching how the two candidates' tax and spending plans will affect stock and bond prices after the conventions wrap up next week. But politics isn't the only factor weighing on the minds of people who are wondering where to put their money this fall.

Investors are facing an array of issues, from the ongoing credit crisis to weakness in the housing market and the fluctuating price of oil influence, to determine where to place their bets.

For starters, there is conflicting information about the direction of the economy.

Sure, the revised numbers for second-quarter Gross Domestic Product -- the total of all goods and services sold in this country -- rose 3.3 percent in the second quarter, not 1.9 percent as initially thought.

"It may have felt like a recession, but the economy actually expanded quite nicely in the spring," said Joel Naroff, chief economist for Yes Bank.

But foreign trade accounted for most of the increase. Excluding foreign trade, the economy grew at just 0.2 percent during the second quarter, after shrinking at a 0.5 percent rate in the first quarter. Demand for domestic goods is about as weak as it was during the 2001 recession, according to High Frequency Economics of Valhalla, N.Y.

"The credit consumers got from their ATM houses is not there anymore," said Michael Martin, head of Financial Advantage, a Maryland investment firm.

The weak housing market could bottom out by the end of the year, said Charles "Chuck" Lieberman, chief investment officer of Advisor's Capital Management in Paramus. "The single most important economic number right now is that inventories of unsold homes have been declining for several months," he said.

The stock market also could have a brutal finish, Martin said.

He expects the Dow Jones industrial average to reach 10,500 and the S&P 500 to recover to just under 1200. The Dow closed Friday at 11,543, and the S&P 500 closed at 1,282.

Only one thing is certain when it comes to stocks.

"We will continue to experience a fair amount of volatility," Lieberman said.

Here is a guide for investors trying to figure out where to put their money this fall. The forecasts were supplied by Martin; Rafael Resendes, portfolio manager of the Treador Large Cap Fund in Fresno, Calif.; Jerry Miccolis, senior financial adviser for Brinton Eaton Wealth Advisors in Morristown; and Bob Tilson, president of Tilson Financial Group in Watchung.

The investing experts or their funds may own some of the stocks or mutual funds mentioned below:

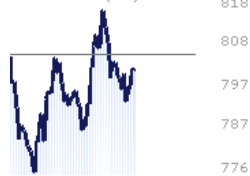
THE ELECTION

Obama might urge Congress to raise the capital gains tax on investments to 20 percent, up from 15 percent. That could help generic drugmakers and utilities that pay dividends because he is backing off earlier plans to raise it to 28 percent. However, health maintenance organizations could suffer because they would be under pressure to cut the cost of health care. Union-friendly Costco could do well under Obama, but Wal-Mart would not.

Defense contractors typically do well under a Republican administration, but

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	Chg	%Chg	Value
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▼ Morningstar	-27	-1.4	1,917
▼ Nasdaq	-3	-0.2	1,384
▼ NYSE	-98	-2.0	4,914
▼ Russell	-4	-1.1	408

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their fortunes might fall under McCain because he is not a hawk on defense and wants to cut overall spending. If McCain wins the White House and the Democrats control both houses of Congress, Wall Street will get its favorite traffic jam -- political gridlock.

"With McCain winning the presidency, you have little likelihood of a radical change in policy, which the market tends to like," Lieberman said.

STOCKS

Investors should look at Cerner (ticker symbol: CERN), which sells information technology systems to hospitals, many of which have outdated systems, Martin said. "They are on a double-digit sales growth track and are getting 20 percent earnings growth," Martin said. The stock closed at \$46.31 Friday, up 26 cents. Stocks such as Cisco (CSCO), a data systems equipment company, and Kroger, a food chain, represent good value. Cisco is selling for about \$24, down from its 52-week high of \$34, and Kroger (KR) is selling at \$27, still below its high of just under \$31.

Nike, the athletic shoe company, "is one of those companies that consistently beats the odds and sells for a 20 percent discount to what its worth," Resendes said. Nike (NKE) is selling for about \$60, off its high of more than \$70. Bank of America (BAC) and JPMorgan Chase are the two best bets in the battered financial sector because of strong management and solid balance sheets, he said. Bank of America is selling for about \$31, down from a high of \$53. JPMorgan (JPM), selling for about \$39, is down from its high of just under \$50.

BONDS

Don't go out too long -- 10 years or more -- when it comes to bonds, which is why Fidelity Short-Term Bond Fund (FSHBX) is attractive. You also can stick with Vanguard Intermediate Term Tax Exempt (VWITX), Loomis Sayles Bond Fund (LSBDX) and Dreyfus Intermediate Municipal Bond Fund (DITEX), which invests in lower-quality but higher-yielding bonds with a maturity of 10 to 18 years.

Martin likes Longleaf Partners Fund (LLPFX), in which the partners of the firm invest their own money, Pimco Low Duration Fund (PTLDX), which owns bank loans with a maturity of only a few years, and Eaton Vance Senior Floating Rate Fund (EFR) because of its roughly 8 percent yield. Vanguard Inflation-protected Bond Fund (VIPSX) appeals to people who are worried about inflation eating into their retirement, Tilson said. Round out your fixed-income exposure with Pimco Real Return Fund (PRRIX) and Pimco Foreign Bond Fund (PFORX), Tilson said.

COMMODITIES

Canadian royalty trusts are a good choice for people who like their strong cash flow and high dividends. Consider Advantage Energy Income Fund (AAV) and Enerplus Resources Fund (ERF) if you still like the energy game, Martin said. You also should look at iShares Dow Jones US Energy Sector (IYE). Vanguard Energy Fund (VDE) is considered cheap and tax efficient, Miccolis said. Valero (VLO) is a good energy company that could be worth 65 percent more than its current share price, Resendes said. Valero is selling for about \$35, less than half its 52-week high of \$75. Pimco Commodity Real Return Fund (PCRIX) gives investors exposure to gold, energy, food and industrial metals such as copper, Tilson said.

EXCHANGE TRADED FUNDS

ETFs, which trade like a stock but are diversified like a mutual fund, have been attractive to investors.

"They are cheaper and more tax efficient than mutual funds," Miccolis said. Real estate investment trusts also should be in your portfolio because of their high yields, so check out the Vanguard REIT Fund (VNQ). To get a lot of bang for the buck, try Vanguard Megacap 300 Value Index (MGV) and Vanguard Megacap Growth Index (MGK), Tilson said.

"Large-cap stocks are cheap overall," he said, referring to the biggest corporations. MGV is down nearly 14 percent this year, and MGK is off 6 percent.

ALTERNATIVE INVESTMENTS

Tilson said Lazard Emerging Markets Equity Fund (LZEMX) gives investors exposure to India and China. He also likes Alpha Hedged Strategies Fund (ALPHX), which has more than two dozen hedge fund managers. The Gateway Fund (GATEX) writes call options on the S&P 500 and often makes money when markets fall, he said. Call options give investors the right to buy stock at a set price within a certain time.

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