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Debt ceiling: 10 reasons not to move your money now

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JUL 28, 2011 11:16 EDT

With the markets getting more and more nervous as the days tick by to August 2 without a debt deal, one thing that might be keeping the bottom from falling out is the calm of financial advisers. To borrow from former President George W. Bush, they are urging clients to "stay the course." And behold, they cite many sensible reasons for doing so.

Reuters Money reached out to members of the financial community to see how they're calming the folks they advise. An overwhelming majority expressed faith that lawmakers would broker a deal by the deadline, and markets would adjust regardless.

Here are 10 reasons they give not to juggle your investments right now.

1. A short-term crisis demands long-term thinking.

While it's true a debt ceiling crash might resemble the sky falling, no one knows if that's going to happen. Markets reward investors who stick to sensible strategies over time. "Rather than obsessing about the debt debate, we are telling clients to get engaged in a long-term conversation about risk management," said Michael Gault, senior portfolio strategist at Weiser Capital Management. Gault, who manages $200 million, stressed that the last few months on Wall Street have been good ones. "The concept of 'risk' has taken a back seat as the markets' recovery has been in a relatively smooth upward trajectory. We think there's tremendous value in rebalancing here."

2. Smart investors adjust to market fluctuations, not political grandstanding.

"We're telling clients that what is happening in D.C. is primarily political positioning," said Mackey McNeill, CPA, PFS, and the principal of Mackey Advisors in Covington, Kentucky. McNeill manages $45 million, "mostly with Boomers," and noted, "We continue to hold asset allocations based in the client's plan. As asset classes respond to the market, we will take advantage and rebalance. We believe and have seen that trying to time the market in any environment puts clients money at undue risk." The reckless ones, he thinks, are those gambling with political capital: "We also have encouraged via social media that this is a call for election reform."

3. Cash reserves make for a strong defense.

While no one's about to advise knee-jerk moves to turn portfolios into currency for stuffing a mattress, investors with solid cash reserves should sleep soundly through the throes of the crisis. "A good starting point is having enough to cover at least six month's worth of living expenses," said Erik Davidson, deputy chief investment officer for Wells Fargo Private Bank. "This will help investors manage short-term uncertainty without derailing their long-term investment plan. … Wells Fargo encourages knowing your 'number,' the amount of cash or cash equivalent holdings that will help you meet anticipated cash flow needs during difficult market conditions."

4. Probability of government default remains low.

Despite the headlines and dire forecasts you may have read elsewhere, the chances of an all-out government default remain low, according to a July 27 market update issued by PNC. In it, Chief Investment Strategist E. William Stone and his team state that measures by the U.S. Treasury could extend debt payments past the Aug. 2 deadline, or use incoming revenues as a temporary stopgap to prevent default: "It is our view that Congress will use this time created by payment prioritization to agree on a compromise plan. This lends weight to our opinion that there is a low probability of a technical default on U.S. Treasuries or on other government obligations."

5. The experts still trust proven defensive strategies.

The defensive approach to investing involves more than just cash reserves. "We're focusing on investing in large-cap multinational firms with strong balance sheets, good free-cash-flow — and that pay a dividend currently greater than the 10-year Treasury," said Oliver Pursche, president of Gary Goldberg Financial Services, based in Suffern, New York. "In our view, these companies, when paired with commodities as well as short-term to intermediate-term bonds, present a superior investment allocation that has historically performed very well in up markets and displayed significantly less down-side volatility in poor markets." The bottom line? "Historically, our portfolios have had 80 to 85 percent of up capture and roughly 60 percent of down capture."

6. There's wisdom in waiting out the storm before investing anew.

With so much riding on the debt ceiling negotiations, what if Washington extends talks over the Aug. 2 deadline? Markets could turn volatile, and, if so, it makes sense to hold off on new investment. "We are recommending clients not commit any new capital to the markets until this is resolved," said R. Thomas Manning, Jr., president and chief investment officer at Silver Bridge Advisors, a Boston-based wealth management group. "As a firm, we have not made any additional changes to our asset allocation policies directly in relation to these issues."

7. It's more than just the debt ceiling.

Those watching the market closely point out other reasons for concern and that fixation on the debt ceiling may cause an otherwise smart investor to take an eye off the ball.

“We are more defensive in recent months than we had been previously, but that is primarily because of the debt problems in Europe, not the U.S.,” said Stephen A. Smith, vice president and chief investment strategist at the Whittier Trust Company in South Pasadena, California. “We have advised clients to maintain their normal strategic exposures to the U.S. stock market … and have moved client cash out of money market funds with exposure to European banks.”

8. We’ve been here before. (Sort of).

For all the talk of “uncharted waters” spouted by politicians and pundits, the financial meltdown of 2007-2008 was a true, treacherous tsunami of market upheaval. When a shattered real estate bubble and malaise from the Great Recession compounded things, many wealth managers buckled down and turned especially vigilant. The smart ones still have that stance, yet know not to overreact, said Douglas Eaton, president of the Eaton Financial Group in Coral Springs, Florida. “In reality most crises, such as these, are exacerbated … and just like Y2K and H1N1, they turn out to be much less horrific than [predicted]. … As I have done for many years, I try to beat the bad news home. ”

9. Alert investors see opportunity where others see calamity.

While many wealth managers suggest sitting tight while markets are upheaval, a period of calm after the storm could reveal some bona-fide bargains. “We’d plan to be opportunistic if a sharp sell-off occurs,” said David S. Robinson, CFP and president of Robinson, Tigue, Sponcil & Associates Private Wealth Management in Phoenix, Arizona. “Even if August 2 passes without a solution, the debate will continue and an eventual compromise is likely. So for equities, the ‘noise’ in Washington should prove to be just a short-term distraction. We’d continue to focus on the fundamental drivers of share prices, including earnings, valuations and interest rates. These remain constructive.”

10. Diversify, good; diversions, bad.

Across the board, wealth managers favor a proactive rather than reactive stance. And sometimes the most proactive thing an investor can do is sit tight while others lose their grip on reality. But if you’re moving at all in these nervous days, make sure your portfolio has a healthy, diversified spread — and reach for the earplugs when you hear screaming pseudo gurus predicting Panic on the Street. “We are just making sure our clients stay diversified and invested for the long-term,” said David Peterson, founder and president of Peak Capital Investment Services, a financial services firm in Dallas and Denver responsible for $700 million in assets. ”We tell them, ‘Don’t let the markets steer you.’ It’s more important to have enough money to last you the rest of your life and if you chase the markets, you’ll go broke.”