Strategy for the slowdown is to stick with the basics

by Jeff Manning, The Oregonian

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In early 2007, Portland investment firm Ferguson Wellman Capital Management predicted not only the end of the housing boom but also the profound impact that the bust could have on consumer spending and the economy as a whole.

Quarterly home-equity withdrawals peaked at $869 billion in mid-2006 and plummeted to $300 billion by year's end. The housing ATM for homeowners is over, the firm proclaimed, and promptly minimized its holdings in banks, homebuilders and nonstaple consumer products.

Good call.

Now, with the national housing bust contributing to an economic slowdown, The Oregonian asked George Hosfield, Ferguson Wellman's chief investment officer, about the coming year, the severity of the downturn, the government's efforts to stabilize the economy, and investment strategies during the downturn.

Are we in a recession?

The question is purely academic. There's not much of a difference between a half a point growth and half a point decline in the economy. Whether we're in one or whether we're about to go in one, we think it will be relatively shallow. The next question is, how long will it last? The evidence is starting to mount that it may be a little longer than the current consensus, which is that it will last through the first half of the year. We think now it could be the third quarter or the fourth quarter and the economy could still be at or near zero growth.

Are there safe harbors in the stock market in this economy?

The more defensive sectors are places to be. That would be health care. Utilities have done well. Staples have done well. And in the near future, we'll be looking for the bottom in financials and consumer discretionaries, areas that we have avoided. The fact is, many of those stocks are now washed out and cheap. And these are areas that respond to the stimulus packages that have been put in place. We still think it's too early to go overweight in financials and consumer discretionary. But we know where our next move will be: It will be in these two sectors that have been laggards.

Gold, oil and other commodities have been hot. Will they continue so?

Clearly, with the emergence of large parts of the Third World, demand for many basic commodities will grow. And demand will exceed the ability of the economy to supply. We've seen a real cyclical spike in some of these commodities. But they are overdone in the short term. I mean, copper's up 27 percent in a single quarter at a time when global economic growth is slowing. It's crazy.

When you read about the carnage on Wall Street and the unprecedented financial breakdown, it seems a dramatic contrast from our own regional economy, which seems to keep on perking along.

Downturns are not uniform. Think about real estate. Until last month, the Portland real estate market was one of three in the country not to have rolled over (into year-over-year price declines). We had a good run in real estate. We have some nice fundamental in-migration trends. We have some advantages here.

But we'll get our turn in the barrel. It will get worse. Credit is tight everywhere. That's real here. It's real everywhere. Access to capital is no easier here than it is anywhere else. Valuations weren't as extreme. But liquidity is an issue. That's pinching business and increasing costs.

It's been an amazing stretch on Wall Street, with Federal Reserve Chairman Ben Bernanke and the Treasury Department floating sweeping plans for new programs, reforms and new regulations. Are the feds doing the right things?

My report card for Bernanke is a solid A. Perhaps the most important was opening up the discount lending window to the investment banks. The willingness and creativity to do that averted what could have been a real crisis of confidence. This is a global, intertwined financial market.