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The days of 'buy-and-hold' have gone and went

Survey shows clear trend toward active management

By **Jeff Benjamin**
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A financial planning industry that has been nurtured for decades on a steady diet of buy-and-hold investing arguments is now expressing a growing preference for more active strategies in light of last year's market meltdown.

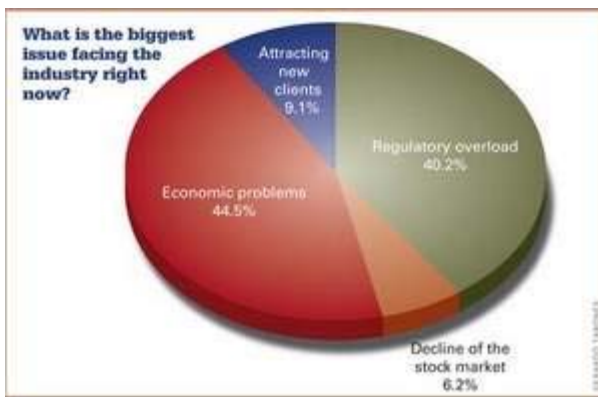
While many financial advisers still prefer terms such as "tactical investing" over such phrases as "market timing," the bottom line remains that more professionals are questioning the value of buy-and-hold strategies.

"It's time for the industry to wake up and realize that retail investors don't have a long-term risk tolerance, and I would think if you were a buy-and-hold firm last year, you don't have many clients left," said Robert Levitt, president of Levitt Capital Management LLC, which has \$400 million under management.

Mr. Levitt, who has long practiced tactical-investing strategies, said that a lot of financial advisers are rethinking the commitment they made last year to sit on portfolios and ride out the market's record-level volatility.

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"I don't believe the financial planning industry in general was ever geared toward tactical investing, but last year was a true test for anyone's commitment to buy-and-hold," he added.



InvestmentNews' 2009 Industry Attitudes survey of financial advisers showed a clear trend toward more active investment management.

While 12.5% of advisers responding to our ninth annual survey said they no longer believe in buy-and-hold investing, 49.6% said they will be quicker to make wholesale portfolio changes under certain conditions, and 37.8% said they are now more willing to sell securities once they have reached a

target price.

“We’ve definitely been more active in the past year, but we’re still not churning accounts,” said Jim Holtzman, an adviser with Legend Financial Advisors Inc., which has \$350 million under advisement.

“It’s fair to say that in this market, there is a need for more active management,” he said. “One of the most frequent comments we have been getting from prospective clients is that their adviser just sat there last year as the market went down.”

Financial advisers admit they are at times scrambling for answers in an environment where too much information can lead to short-term investment outlooks and lower tolerance for risk.

In response to a survey question regarding how the market’s downturn has affected their recommendations of products and services, only 14% of advisers said they will take a more conservative approach, and only 12% said they planned to simplify strategies with more plain-vanilla investments.

Meanwhile, more than 80% of the more than 700 survey respondents said the economic malaise had made them better advisers.

“What I learned over the past year is that fear drives an awful lot of behavior and our job is to guide our clients through it,” said Michael Kay, president of Financial Focus LLC, which has \$150 million under advisement.

Mr. Kay, who described the Obama administration’s economic stimulus efforts as mostly “a psychological balm,” remains a believer in buy-and-hold investing.

“Our clients care most about a level of comfort with their strategy in good times and bad,” he said. “There were certain clients who were uncomfortable last year, but we made very few changes, overall.”

Clearly, buy-and-hold strategies are not evaporating into thin air. The extreme stock market swings over the past 12 months have fueled the arguments on both sides of the debate.

“Nobody should consistently buy and hold equities if they can’t handle the risks, but what disturbs me is now that we’ve had a decline, people are popping up and saying they need to be

more tactical,” said Frank Armstrong, founder of Investor Solutions Inc., which has \$400 million under advisement.

“Buy-and-hold is the worst possible way to manage money, except for all the other ways,” he added. “We think advisers that are now moving away from buy-and-hold investing are just reacting to their clients.

“I'd like to know how many of those guys that got out of the market got back in the market in mid-March, and how many are ahead of where they would be if they had just stayed in the market?”

At least some of the growing tactical investing movement can be attributed to what financial advisers see coming from lawmakers.

“One of the lessons to be learned from all this is that we have to be more attuned to the regulatory changes and how those changes will impact investments and our clients' portfolios,” said Curt Lyman, a managing director with HighTower Advisors LLC, which has \$14 billion under management.

“We are a nation that has become reliant on government to solve our problems, but in our industry we must be responsible for our own conduct,” he said. “This industry's reputation suffered last year, so we need to be proactive in policing ourselves by operating in accordance with some fiduciary standards, and we need to work to regain and rebuild the trust of investors in America.”

Along those lines, advisers surveyed were mostly neutral in their rating of the performance of Securities and Exchange Commission Chairman Mary Schapiro, but the results were less kind to Congress and President Obama.

In assessing the Obama administration's performance regarding the economy, only 6.4% of respondents awarded it the highest grade, while 35.7% chose the lowest grade.

Congress scored even worse, with 0.8% of respondents assigning it the highest grade for its performance on the economy and 51.5% assigning it the lowest grade.

Guiding clients through the current market environment will require a big-picture perspective and a nimble strategy, according to Sam Jones, president of All Season Financial Advisors Inc., which has \$115 million under management.

“After 10 terrible years, of course advisers will start flying into the tactical camp, but right now, the trend is your friend, and the market risk is going to be rewarding,” he said. “I will never be a buy-and-holder, but staying invested in this market is the right choice right now.

“I'm not of the belief that we have embarked on a secular bull market, but if the buy-and-hold guys are now going tactical, that tells me it's time to go buy-and-hold.”

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