

Money in the bank – but for how long?

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Dave Brady understands that, after the past few years, many people have had enough of the ups and downs of the stock market.

"After everything we've been through in 2008 and 2009, some people just can't deal with it anymore," said Brady, owner of Brady Investment Counsel in Geneva. "There's a lot of retail investor cash sitting on the sidelines right now."

But Brady and other financial advisers believe now might be the time for investors to take a second look at the markets.

"I feel that we are now in a market where there are some real opportunities," Brady said. "There are chances right now where, for not a lot of risk, investors can get some pretty solid returns."

A growing number of investors appear to agree with that assessment. According to a new survey released by financial trends tracking organization, the Investment Company Institute.

The ICI reported this week that in the last month the amount of money flowing into the stock market has increased steadily, reaching its highest net level since mid-2009.

That marks a departure from the net outflow from domestic stocks that had characterized the market since mid-2010, ICI data shows.

Some of that money movement has been driven by sustained increases in the stock market in the last six to seven months. Since closing below 9,800 in July, the Dow Jones Industrial Average has risen fairly steadily since, and this week, is hovering at just shy of 12,300, an increase of about 25 percent.

That upward momentum has drawn the attention of many investors who have grown increasingly dissatisfied with the paltry-by-comparison returns offered currently by alternative investment vehicles.

"People are getting their money back, and they're moving beyond just being happy that the bloodshed has stopped," said Brian Green, a financial adviser, portfolio manager and equity analyst at Capital Management Group Inc. in St. Charles.

"People are starting to feel more comfortable with moving back into the market again."

However, investors still have a long way to go before they could be described as having redeveloped an appetite for risk, local financial advisers said.

After dealing with the losses that accompanied the market crash in 2008, investors in the Tri-Cities and elsewhere opted to pull their money out of the stock market and attempt to limit their losses by throwing the money into bonds, precious metals and even various interest-bearing accounts in banks.

Reports filed with the Federal Deposit Insurance Corporation note that in 2009 and much of 2010 the amount of cash held in various savings vehicles generally increased at banks operating in the Tri-Cities region.

Green said many of his clients greatly increased their cash holdings amid the economic downturn.

Previous to the market crash, investors might typically have held 5 to 10 percent of their portfolio in cash vehicles, like certificates of deposit or money market accounts. By last year, however, Green said he advised many of his clients to increase that cash position to around 20 percent, with another 25 to 30 percent in bonds or precious metals.

"We were cautious when the [mess] hit the fan, we were cautious when the market came back up in 2009 and 2010, and we continue to be cautious," Green said. "We're still not convinced that the gains from the last couple of years have been legit."

However, in the latter half of 2010, the FDIC reports indicate that many investors in the region have begun to tire of low investment returns offered through CDs and money markets.

While a few banks reported sustained growth in the amount of money invested at their institutions in money markets and "time deposits," most reported a decrease in CDs or money markets, or both, from June 2010 to the end of the year, the most recent month for which reports were required.

At most local banks in the Tri-Cities and Elburn, the decline in the amount of money invested in timed deposits, like CDs, dropped during 2010 by from 4.5 percent to as much 18 percent.

At others, the amount invested in money markets declined slightly or grew only slightly in the latter half of the year.

Craig Weeks, senior financial adviser at Harris Bank, said many of his clients have begun to move beyond the desire to simply not lose money.

"Now, we're seeing investors starting to use their cash again, and reinvest it," Weeks said.

However, Weeks and others said the move toward the market is not yet a rush to Wall Street. They said most clients remain cautious and, in some cases, jittery, as the memories of the losses endured in the crash remain fresh.

Stewart Beach, vice president for wealth management at Aurora-based Old Second Bank, said many of his clients still hold more cash than they may have historically – even against his recommendations.

"The cash level's not going up," Beach said. "How low in cash they're willing to go right now depends on their risk tolerance."

"But we are seeing people becoming more involved in the market again."

Weeks said his clients are seeking a moderate approach to investment growth.

"The big issue is trust," Weeks said.

And so far, investors seem to be showing that their trust in the market is returning – or at least that their desire for renewed financial growth is overcoming their apprehension.

"There's still this feeling that things could get really bad again," said Green. "And it's not completely unfounded."

"And if things do go real bad again, clients are telling me that maybe the market's not necessarily the best place for them to be."