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News

Where to Invest $10,000 Right Now

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by **Suzanne Woolley**
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▶ Six investing veterans pick their spots for 2019.

Investors can be forgiven for thinking that their mattress—or maybe a money-market fund—isn't such a bad place to stash cash. Global trade tensions and White House turmoil helped fuel market jitters in the year's final quarter, when the S&P 500 tumbled 14 percent from its September high. For the year, the index closed down 4.4 percent.

Retreating from a volatile market into cash, though, is a famously losing strategy. Investors who try to time the market often miss out on sharp gains that can follow down periods. Those who maintain a discipline in how they approach the markets, meanwhile, can pounce on promising stocks at lower valuations and potentially profit from others' panic.

Those coolheaded investors are the type of experts who share their views with Bloomberg each quarter, and true to form, our six panelists—while some still sound defensive notes—see promising pockets of opportunity around the globe. These money managers see potential homes for a $10,000 windfall in industries as diverse as oil and European banks, as well as in battered-down areas ranging from the U.S. to emerging markets.

The recent market swings are a good reminder to start the year with a portfolio checkup. Are you diversified across different industries, asset classes and geographies? Do you have at least three months of expenses socked away in safe investments in an emergency fund? Take a look at "The Seven Habits of Highly Effective Investors" for ideas on how to make sure your portfolio enters 2019 in good shape.

Many of the ideas presented by our experts are at work in the mutual funds or investment portfolios they manage. Bloomberg Intelligence ETF analyst Eric Balchunas highlights exchange-traded funds (ETFs) as a rough way to invest around those ideas, and tallies up how his ETF plays performed last quarter.

Filtering out market noise is hard. That's where our experts can help with solid investing ideas, along with well-reasoned reminders, such as that from panelist Joe Davis of Vanguard to simply "stay calm and carry on."

Sarah Ketterer

Chief executive officer and fund manager, Causeway Capital Management

There's a Price for Everything

By the close of 2018, global equity markets had punished—more like pulverized—stocks with economically cyclical earnings and typically rewarded those in the most defensive industries. The defensive havens included stocks in such industries as utilities, household and personal products, food and staples and retailing. In contrast, banks and insurance stocks, especially those in Europe, fell in price so sharply that their valuations have reached levels consistent with a severe recession and a financial system crisis.

That's a value investor's dream: to buy stocks whose valuations already discount an unlikely scenario, and then wait for the inevitable recovery. Even better, the most battered of European bank stocks pay investors to be patient via generous dividends.

Early this month, the MSCI Europe Banks Net Total Return USD Index traded at a multiple of eight times 2019 earnings and 0.7 times book value, and had a dividend yield of almost 6 percent. But these are not the same banks as during Europe's last banking crisis. These companies have strengthened their capital positions to have four times as much capital as a decade ago. U.K. banks have enough capital, according to their regulator, to withstand an economic collapse, a huge rise in U.K. unemployment, a 33 percent drop in residential property prices and a 27 percent devaluation of the pound sterling. That's akin to multiple shocks, and even after that nightmare, the banks would have twice the required capital.

Admittedly, banks are leveraged into economic conditions, good or bad. Adept bank managers (and there are plenty of these in Europe) know how to use their two primary levers to improve shareholder returns: cost control and capital management. With disciplined lending, ultra-cost efficiency and savvy technology spending, these well-capitalized banks should have a rosy future. At these bargain valuations, misery is already priced in.

Way to play it with ETFs: The closest thing to a play on European banks is the iShares MSCI Europe Financials ETF (EUFN), which is made up of 60 percent banks. The ETF has a fairly reasonable expense ratio of 0.48 percent. Since the ETF is market cap-weighted, big players such as HSBC Holdings and Banco Santander make up a big chunk of holdings.

Performance of last quarter's ETF plays: The First Trust Morningstar Dividend Leaders Index Fund (FDL) fell 9 percent in 2018's final quarter.

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Indices are unmanaged and do not include the effect of fees. One cannot invest directly in an index.

The S&P 500 Index (Standard & Poor's 500 Index) is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value.

The MSCI Europe Banks Index is composed of large and mid-cap stocks across 15 Developed Markets countries in Europe. Developed Markets countries include: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the UK.