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ARE FINANCIAL MARKETS HEADED TOWARD A CORRECTION?

"We are of the opinion that the market will be much more volatile this year than the past several years. So while our indicators are pointing to a rebound in stocks over the next several months, that doesn't mean the recent downturn was just a blip. I would expect the market to return to the recent highs, but during the remainder of the year stocks will likely dip below current levels again."

BRIAN SOMMERS, director and portfolio manager, Fusion Investment Group LLC

"We think April-May might be the time frame for a more significant pullback in the stock markets. Our definition of a correction is the traditional one — a 10 percent decline for the stock markets. After a 30 percent up year in 2013, a 10 percent correction does not sound all that bad, but I guarantee you, as we experience the pullback in real time when it's happening, we'll feel different about it then."

MICHAEL KAUFFELT, president and CEO, Bill Few Associates Inc.

"Minus 5 percent from highs is noise. Minus 10 percent is correction. Minus 30 percent is panic. Minus 40 percent is recessionary collapse. Minus 50 percent is depressionary collapse. Minus 60 percent is Armageddon. I think it takes patience to be a good investor. Understand the company, determine a price where you would like to buy it but continue to re-evaluate based on new information. Try not to let a rising market push you into buying a stock that's overpriced."

KIM CAUGHEY FORREST, senior equity analyst/vice president, Fort Pitt Capital Group

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Markets down, but investors aren't panicking

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Jim Snively

Are financial markets headed toward a correction?

If financial markets aren't currently headed toward a correction, one is likely looming in the months ahead, a cross-section of Pittsburgh-area investment professionals believe.

A correction usually means a 10 percent drop from highs. The Dow Jones industrial average turned tumultuous in mid-January but hasn't slipped that far yet.

"Since the market bottom in March 2009, the advance was 122 percent to year-end 2013," said Erica Snyder, CEO of Hunter Associates. "Since year-end, we have come down about 5 percent.

It might not make us feel good, but it does mark the 19th time since 2009 that the market corrected 5 percent or more. In the sweep of recent market history, this downturn so far looks more like a blip."

Recent weakness in the U.S. economy from the ISM manufacturing index released earlier this month caused some concern, Snyder acknowledged, "but corporate profits are still generally coming in better than expected. Growth could slow a bit here, but at this point we don't see the beginnings of something more worrisome."

She attributed much of the market downturn in January to "slowing growth in China and the Argentine devaluation." As the Federal Reserve continues to taper its support of the bond market, "higher rates would make capital inflows into emerging markets less attractive," Snyder said. "We need to keep a close eye on any acceleration in domestic inflation as a result of the Fed's unprecedented monetary creation well into the recovery."

Given that many investors feel like we are due for a correction and the high level of uncertainty about when it will happen and what form it may take, Michael Kauffelt, president and CEO of Bill Few Associates Inc., said this is "a really a good time to have a well-diversified portfolio. Investors should review any highly concentrated investment positions they own and understand the risks in those positions."

Matthew Yanni, principal at Yanni & Associates Investment Advisors LLC, "still believes" 2014 will be another positive year for the stock market, but there will be other volatile pullbacks later this year. His reasoning? Rising long-term interest rates may pressure mortgage rates – and thus housing activity and corporate profits. Potential general economic weakness and the midterm elections could also be factors, Yanni said.

"Historically, the second year of the presidential cycle where midterm elections are held, has produced volatile and sometimes sharp pullbacks in stock market returns," Yanni said.

There's a what-goes-up-must-come-down aspect to the industry sectors most whammied in early 2014.

"Here's the thing," said James Foley, Janney Montgomery Scott's senior vice president/complex manager. "Those same sectors were up significantly in 2013. Consumer discretionary was up 43 percent, industrials 41 percent and energy up 25 percent. These sectors were due for profit-taking and/or correction. Longer term, we are bullish on stocks and recommending investors overweight them going forward. Our reason for that is we see what we are calling a 'synchronized global expansion.' Right now, we are seeing approximately an 80 percent participation rate in global economic growth/recovery, the highest level since before the Great Recession. We really like the cyclical areas that are deeply tied to economic growth. We see them as the strongest beneficiaries of global economic expansion."

Patty Tascarella
Senior Reporter - *Pittsburgh Business Times*