

BEWARE OF “HOT SECTOR” ADVICE

Investment “*experts*” are often eager to advise investors about a “*hot sector*”, the best strategy might be to ignore it. Analysts and fund companies like to advise investors to “*overweight tech*” or “*underweight energy*”.

In plain English, that means they are saying to put extra cash into technology shares or less cash into energy stocks. If the economy is heading for a rough patch, for instance, it is time to buy “*defensive*” stocks; if the economy is pulling itself out of the doldrums, it is time to buy “*early cyclicals*.”

The problem with well-worn ideas in financial markets is they tend to stop working and that often occurs with “*sector pickers*.” Lately, the difference between the “*best*” and “*worst*” performing sectors has not been nearly as stark as it used to be.

The difference in annual returns between the top and bottom sectors, in MSCI BARRA’S world stock index has averaged a little more than 30 percentage points over the last three years.

Over the five year period that ended in 2002, that average was about 60 percentage points. While tech’s boom and bust was a big part of that, the annual return difference between the second best and the second worst performing sectors similarly narrowed.

STREET TRANSLATION

Within each sector the differences between the best and worst performing stocks have not changed much over the past several years. Of course, these trends could reverse. But the upshot if they do not is fund managers should worry less about picking “hot sectors” and spend more time picking “great companies.”

If you have any questions and/or require assistance, simply...

ASK THE WIZ!!!