



GETTING GOING HOW TO COMPLAIN B8

WEEKEND INVESTOR



GOLD ARE YOU PAYING TOO MUCH? B9

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For the week: DJIA 12019.42 ▲ 787.64 7.01% 10-Yr. Treas. ▼ 23/32 yield 2.046% GOLD \$1747.00 ▲ \$61.30 OIL \$100.96 ▲ \$4.19 EURO \$1.3390 YEN 77.98 3-month Libor 0.52833 Money Market (ann. Yld) 0.51%

HOW TO PLAY THE RESCUE

BUY U.S. STOCKS

Domestic stocks have risen 10.6% on average in the year after coordinated central-bank bailouts.

BUY EMERGING MARKETS

Easing this week by China's central bank could signal a market bottom for emerging markets in Asia.

AVOID EUROPEAN STOCKS

A central bank solution may be in the works, but a new financial crisis would punish Europe the most.

KEEP CASH AS BALLAST

Use short-term Treasuries or money market funds as insurance against a worst-case scenario.

History Shows That the Effects of Coordinated Central-Bank Interventions Can Last for Years. Here's What to Do Now

BY BEN LEVISOHN AND JOE LIGHT

A little coordination can go a long way.

After the Federal Reserve and five other central banks on Wednesday announced a joint effort to support the global financial system, stock markets around the world zoomed. The Dow Jones Industrial Average jumped 4.2%, its largest one-day spike since March 2009.

The question on investors' minds is whether this latest rally has legs, or

whether it will fade away like so many others in the past few months.

History could offer a clue. A Wall Street Journal analysis of market data provided by Elroy Dimson, Paul Marsh and Mike Staunton of the London Business School suggests the central-bank intervention might indeed be a turning point for the markets: U.S. and emerging-market stocks may be poised to outperform, while European stocks could be headed for more trouble. There is enough uncertainty to warrant a healthy dollop of Treasuries and cash in investors' portfolios as well, for

safety.

"There are possible positive catalysts that could paint a constructive picture for equities in 2012," says Lisa Shalett, chief investment officer at Bank of America Merrill Lynch Global Wealth Management. "But at the same time we're telling people they need to keep some money in cash until there's better visibility."

On Wednesday, the Fed joined with the European Central Bank and the central banks of England, Japan, Canada and Switzerland to make it easier and cheaper for banks to swap foreign cur-

rencies for dollars. (Separately, Chinese authorities reduced banks' reserve requirements in a bid to stimulate lending and boost economic growth.)

As government interventions go, the latest foray isn't nearly as big as the Fed's recent bond-buying programs or the Treasury Department's Troubled Asset Relief Program of 2008. But it did signal that central banks are ready to head off the kind of liquidity crisis that could derail the global financial system.

Coordinated moves like the one on Wednesday are rare but not unprecedented. In 2008, the Fed entered into

similar agreements with central banks to arrest a frenzied flight out of just about everything and into dollars. Central banks also moved following the terrorist attacks of Sept. 11, 2001, when damage to New York threatened to wreak havoc on the financial system.

Even as far back as 1931, the global banking community, through the Bank for International Settlements, tried to quell a crisis following the collapse of Vienna's Credit-Anstalt, then that nation's largest bank, by providing loans to Austria. The attempt was a case of

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Chris Galt

How to Play the Central Bank Intervention

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too little, too late; the crisis soon spread to Germany and elsewhere, worsening the Great Depression.

History suggests the latest intervention could be good for certain asset classes. Over the past 80 years, central banks have joined forces at least seven times during financial crises, albeit in different ways and amid different circumstances from today's.

On average, U.S. stocks had a real return of 9.1% in the three months following a coordinated intervention, 10.6% after a year and 24.5% after two years, according to the Journal's analysis of the data from Profs. Dimson, Marsh and Staunton. The average annual return for stocks from 1900 to 2010 was 6.3%.

Treasuries, too, produced strong returns. They averaged 7%, 8.5% and 15.2% during the three months, one year and two years following an intervention, respectively, compared with an average annual return of 1.8% from 1900 to 2010.

Some major caveats are in order. The "swap agreements" announced on Wednesday and in 2007-08 don't compare easily with interventions of the past. Central banks frequently have worked together over the years to prop up currencies—but moves designed to provide li-

quidity to the global financial system have been less common, notes Michael Bordo, an economics professor at Rutgers University.

"What the Fed did in 2008 was something new," he says.

The closest parallels may be the international cooperation after the 1998 Russian default, the terrorist strikes of 2001 and the 2008 crisis, says Carmen Reinhart, senior fellow at the Peterson Institute for International Economics. In all those cases, the efforts to provide liquidity prevented a collapse of the financial system in the short run but didn't solve underlying economic problems.

What's more, while the average returns have been strong, there has been plenty of variation. While U.S. stocks were higher three months, one year and two years after the 2008 intervention, investors would have lost 15% in the year following the 2001 intervention and 3.2% after two years.

Still, there are lessons to be gleaned from the past.

First, the closer a market is to the epicenter of a crisis, the less likely it is to post positive returns. European stocks, for example, outpaced U.S. stocks by more than 20 percentage points during the year following the October 2008 intervention.

Likewise, European stocks

To the Rescue?

How U.S. stocks fared in the months and years after coordinated international interventions.

	June 1931 Austrian bank collapse	Sept. 1936 Attack on gold standard in France	Aug. 1982 Latin American debt crisis	July 1997 Asian banking and currency crisis	June 1998 Russian debt crisis	Sept. 2001 Terrorist attacks	Oct. 2008 Lehman Brothers collapse
THREE MONTHS	1%	12%	40%	9%	-7%	5%	4%
ONE YEAR	-51	1	65	27	16	-15	31
TWO YEARS	6	-17	63	49	25	-3	49

Note: Dates and inflation-adjusted total returns are from the start of the international interventions.

Sources: Elroy Dimson, Paul Marsh, Mike Staunton of London Business School

fell just 6.2% in the year following the 2001 terrorist attacks, compared with a 15% decline for U.S. stocks.

By contrast, U.S. stocks outpaced European shares by nearly 19 percentage points following the attempts to shore up the global financial system after Russia's default in 1998.

Another important lesson: Interventions don't always follow a neat pattern for investors. Following the collapse of Credit-Anstalt in 1931, for example, U.S. stock investors lost 51.5% during the next year.

With that in mind, here's how investors should approach their stock, bond and cash holdings.

Stocks

U.S. investors often are en-

couraged to invest more money abroad. They might want to tread carefully now.

The Standard & Poor's 500-stock index has lost just 1% this year, compared with a 13.5% drop for Europe's Stoxx 600 index. Meanwhile, the companies in the S&P 500 with the least international exposure have outperformed those with the most exposure by 7.1 percentage points, according to BofA Merrill Lynch.

The U.S. might keep outperforming, says Sam Katzman, chief investment officer at Constellation Wealth Advisors in New York. "If anyone can shelter themselves from what's going on internationally, it's the U.S.," he says. "Money that might have been flowing to Europe might be flowing here."

The U.S. economy has held up comparatively well thus far. On Friday, the U.S. Labor Department reported the unemployment rate for November fell by 0.4 percentage point from October to 8.6%, the lowest in nearly three years.

Yet with the risks still high, investors should focus their stock purchases on areas that provide relative safety, some strategists say. That means dividend-paying stocks, which have beaten non-dividend-paying stocks by 7.8 percentage points this year.

Growth companies whose earnings are rising steadily might be worth a look as well. "We see value in technology stocks," says Emily Sanders, chairman and CEO of Sanders Financial Management in Norcross, Ga. "But we're not jumping in with both feet for cli-

ents."

European stocks might be tempting given this year's slump. But the economic outlook remains cloudy. The euro zone's purchasing-managers index, a gauge of manufacturing activity, fell in November to a level consistent with a 1% quarterly drop in gross domestic product, according to research firm Capital Economics.

Emerging markets are another story. Although they have been punished when they have been at the center of market crises, they have performed much better during recent crises.

In the year after the 1997 devaluation of the Thai baht, for example, emerging-market stocks lost almost a quarter of their value. But a decade later, in the year after the 2008 global intervention, they returned 89%.

Many emerging markets, especially those in Asia, may be more insulated from the European crisis than investors think, says Brad Durham, managing director of EPFR Global.

"We believe emerging markets have bottomed," says Ms. Shalett of BofA Merrill Lynch. She recommends investors target emerging markets stocks in Asia and Latin America, while avoiding markets more exposed to the European crisis, such as those in Hungary, Poland and the Czech Republic.

Cash and Bonds

Even though the central bank intervention has eased short-term concerns, the European common currency's long-term picture remains cloudy, says Gary Richardson, an economics

professor at the University of California, Irvine.

"Central banks around the world don't have many arrows left in the quiver," he says. "It looks like they hit the bull's-eye for now, but what happens if that optimism fades?"

Aaron Schindler, a financial planner at Wealth Advisory Group in New York, recommends keeping as much as 30% of your portfolio in cash or a safe short-term bond fund, such as Vanguard Short-Term Bond Index.

Keeping some dry powder also gives you room to buy once the economic outlook becomes clearer, says Ms. Shalett.

For the bond segment of your portfolio, history shows that U.S. Treasuries have tended to pay off nicely following a central-bank intervention, no matter how stocks performed.

In the two years after September 1936, for example, when the country was in the depths of the Depression, U.S. stocks fell 16.6% in real terms, while Treasury bonds rose 5.6%.

The biggest potential for gains in fixed income could be in bonds of emerging-market countries, says Mr. Durham. The iShares JPMorgan USD Emerging Markets Bond ETF dropped 1.3% in November, but in the last week it has gained nearly 2%, and is up 5.7% this year. Mr. Durham says investor flows into emerging-market funds, which his firm tracks, suggest that trend could continue.

"[This year's performance] is a sign that they're seen as a safe haven from what's happening in Europe and other developed markets," he says.

This Week



Up, Up and Away

Markets rallied this week on hopes that Europe's debt crisis might finally be contained. The Dow surged 7%, its largest weekly gain since July 2009. The Euro Stoxx 50, an index of blue-chip stocks, gained 11%, the most since November 2008.



Looking Better?

U.S. economic data released this week was mostly better than expected. The unemployment rate fell to 8.6% in November, while private companies added 140,000 jobs. Consumer confidence jumped, and retail sales improved.



Housing Takes a Dip

Home prices dropped 0.6% in September from a month earlier, according to the S&P/Case-Shiller index of 20 major metropolitan areas, and declined 3.6% from a year earlier. Atlanta, Phoenix and Las Vegas fell to record index lows.