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Are Europe Debt Fears Finally Easing?

By Sarah Morgan

Stocks jumped again this morning, following yesterday's big gain on good news out of Europe, but financial advisers are warning clients against making too much of the bounce.

Following reports that European leaders were nearing a new agreement that would give central authorities more control over countries' budgets, the Dow Jones Industrial Average rose nearly 300 points yesterday. The rally comes after an unusually bad Thanksgiving week, in which the Dow lost nearly 5%. With yesterday's lift, the major stocks indices are still in the red for the year but are inching toward break even, with the Dow down about 1%.



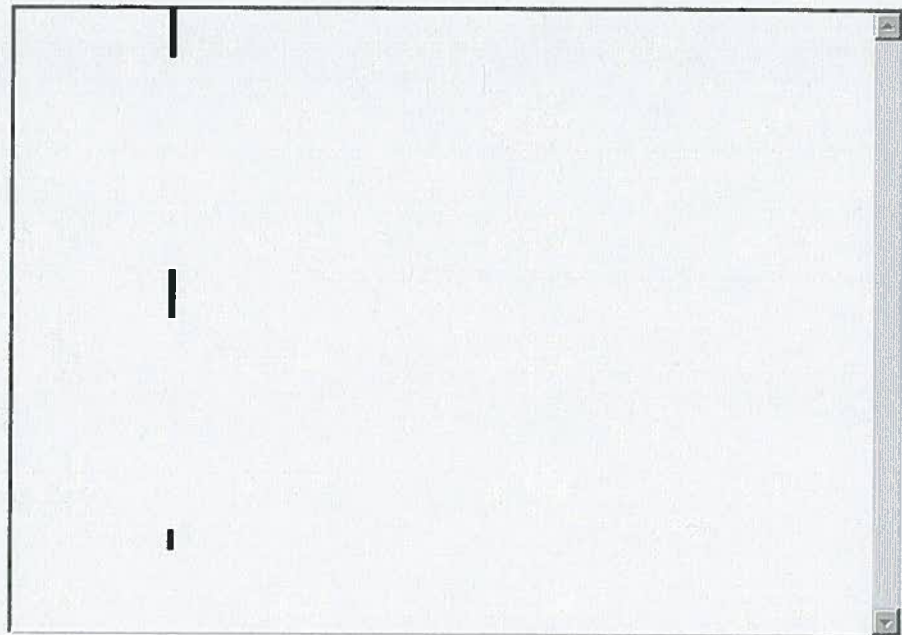
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But even if the rally continues today, investing pros say they're warning clients against shifting more of their portfolios into the market just yet. In fact, some are using the bump as an opportunity to take gains by selling some winners. "A day like today can create the emotion that it's time to get back in," says Mike McGervey, a certified financial planner and the president of McGervey Wealth Management. "I would look at today very cautiously, and potentially even use it as a selling opportunity to reduce some risk."

For example, McGervey recommends scaling back any holdings in gold and other precious metals since they've lately been moving in sync with stocks, instead of serving as a safe haven.

That said, it's also unwise for individual investors to completely pull out of stocks or remove other risky assets from their portfolios, says Roy Williams, the CEO of Prestige Wealth Management Group. Abandoning, say, European stocks could mean missing out on a big rally if the debt crisis does resolve itself. "If [investors] have the right allocation, I'd recommend sitting tight, because you just can't time this thing," he says. "Don't jump in and out of the markets."

Indeed, some advisers see the latest jump as simply a mini-correction. "Markets tend to be a jagged line," so it's not uncommon to see a few rallies in the midst of a longer-term trend downward, says Rodney Johnson, the president of H.S. Dent Investment Management. Stocks may be up, but other assets aren't behaving like a big rally is just beginning, he says. For example, the yield on 10-year Treasuries have once again fallen below 2%. Since bond yields fall when prices rise, that suggests that demand for Treasuries is already back up to last week's levels, meaning plenty of investors are still looking for safe havens. "If you wanted this rally to have some real power to it, you would want to see the credit market participating, and it's not," Johnson says. He suggests cutting back on exposure to banks, as the sector rallied yesterday.



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