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Crash Course: Finance Professor Offers Advice to Investors Braving a Bear Market

University of Dayton

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DAYTON, Ohio — Corporate scandals and the stock market’s plunging roller coaster-like behavior have shaken American investors.

What do you do if you’ve seen your portfolio take a sharp dip?

"Don’t panic," says David Sauer, associate professor of finance at the University of Dayton. “Equity is meant to be a long-term investment, not something you rely on for cash flow. In my opinion, if a person has a prudent plan in place, you may need to re-evaluate your holdings, but if you pull out of the market, you’re not going to be part of the recovery.”

Sauer is the founding director of the University of Dayton’s Center for Portfolio Management, where undergraduate students manage a $1 million portfolio and report on their earnings to UD’s investment committee of the board of trustees. Each year, Sauer stages a national portfolio management competition for college students managing real money and brings in nationally known investment strategists to share best practices with students who travel here from around the country and Canada.

“Volatile periods make an excellent teaching environment,” said Sauer, who holds veto power over the UD students’ stock picks but has never used it. “A lot of best practices are brought to light.”

Here’s Sauer’s primer for nervous investors:

- Diversify. “As we’ve discovered with Enron, if you have huge portions of your retirement fund in one stock, it’s a tremendous risk. During the tech boom, some people just chose tech stocks, but that’s not a prudent investment strategy. Even

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now, those with diversified portfolios may experience losses in the near term, but it's still the best long-term plan.”

- Do your homework. “You don’t want to make security transactions based on emotion. You want to make decisions based on fundamental research. Can the earning potential of a firm support the current price of its stock? You want to buy on the dips when securities are low relative to their intrinsic value and sell when they’re fully or overvalued.”

- Consider bonds. “Investment-grade bonds are a stabilizing force in a total portfolio. The returns may be lower, but they tend to be more predictable. Bonds are a good way of reducing risk, but since interest rates are at historical lows, it is important to recognize that they are subject to interest rate risk and will lose market value when rates increase.”

- Include foreign stocks. “Foreign stocks would be helpful as part of your diversification strategy. Foreign investments tend to reduce volatility and potentially translate into greater returns.”

Will the volatility of the stock market dissuade college students from majoring in finance? At the University of Dayton, enrollment has nearly doubled in the past four years, according to Sauer. “We’ve had a tremendous growth in majors. Now more than ever there’s a great need for professional money managers — particularly as more companies move to self-directed retirement plans.

“Professional money managers can offer insight and guidance in tough times,” he said. “When the stock market is in an extended bull period, people get a false sense of confidence. These are unprecedented times for our students. From an educational perspective, this time is the best.”

-30-

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