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BROKER TALK by Dan Burrows

Big Brokerages Stretch to Find a Silver Lining

WHO'S TALKING: Liz Ann Sonders, chief investment strategist at Charles Schwab; Wachovia's Economics Group; Fidelity's Market Analysis, Research and Education group

THE GIST: Things may look pretty bleak in the stock market right now, but a handful of big brokerage firms are telling clients they are starting to see the gossamer threads of silver linings. Wachovia, Charles Schwab and Fidelity are all making statements that are heavy on the caution but unquestionably include a sliver of optimism too -- particularly in the anxiety-inducing housing market. In each case, these firms are keying off a few longer-term indicators -- and taking pains to remind investors that they won't want to miss out when stocks begin to recover.

The Wachovia Economics Group tilts to the bullish side of the street by forecasting a bottom in the housing market later this year. "As bad as things are in the housing market, conditions are beginning to improve," writes the Economics Group. (Read the full report on Wachovia's site *here*[1].) Saying "you just have to dig a little deeper beneath the surface to find the evidence," Wachovia points to declining inventories, more affordable prices and population growth as factors that bode well. Still, the firm says, a "strong" recovery in the housing market won't likely take hold until 2011. Similarly, Liz Ann Sonders, chief investment strategist at Charles Schwab, says she sees a few faint glimmers of housing optimism. Though "hope for a near-term bottom in home prices is being stifled by still-high inventories of new and existing homes, tight lending standards and dour consumer sentiment," Sonders writes, "some blocks of a stabilizing housing foundation are falling into place." (Read the full report on Schwab's site *here*[2].)

But if declining housing inventory is a faint silver lining of stabilization, that lining is not free of tarnish, says Richard Moody, chief economist at Mission Residential. Although builders have made great strides in paring back construction to get inventories in line, they are chasing a moving target, the economist says. After all, the recession is taking a deep toll on household formation, as more folks double up, kids move back in with parents and immigration declines. "That creates a significant drag on demand," says Moody. "We're seeing apartment vacancy rates go up because we are losing households."

Depending on how saturated you are with stock-market wisdom, Fidelity's recent update will likely strike you as sensible… or old hat. Fidelity's Market Analysis, Research and Education group points out that it can be very costly to miss the beginnings of a bull market. Within six months of a new bull market, more than a quarter of the gains have already been booked, Fidelity notes. (More than 40% of the gains come within the first year.) (Read the full report at Fidelity's site *here*[3].) No question, this is Investing 101 stuff -- though in times like these, even the most grizzled veteran may need a reminder of the basics.

How convincing are all of these oh-so-slightly optimistic proclamations? It may be hard for some investors to take these forecasts seriously, particularly when they come from big industry firms which stand to do better if clients start buying again. Fact is, though, these big firms aren't alone. Says Kevin Mahn, chief investment officer at Hennion & Walsh, a New Jersey investment and wealth management firm: "If you believe that this whole problem started with housing and that it will end with housing, I would suggest that we are at or pretty close to a floor in housing… I wouldn't expect a recovery on a national basis at any point in 2010, but we are starting to see pockets of strength. In my portfolios right now I am actually adding allocations to REITS." When the inevitable rally materializes, in other words, no one wants their clients to be late to the party.