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Money manager seeks steady growth in unsteady times

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For the third year in a row, investors who followed the old Wall Street adage to "sell in May and go away" have been rewarded.

The question, though, is when to get back into the market.

Normally, the May sell-off relates to European traders' practice of taking extended vacations and the lower volumes in U.S. markets during the summer months, said Ignatius L. Smetek, president and chief investment officer at Arcataur Capital Management LLC in Milwaukee.

The last three years have been anything but normal. Stocks have been reacting to the European banking crisis, the stagnation of emerging markets and concerns about the potential for major calamities in foreign markets.

Those issues have driven the May selling. Many investors are still shunning volatile stocks and taking refuge in defensive names. Smetek is not one of them.

"I'm looking at the current 'sell in May' not as a time to go away but as an opportunity to reposition our portfolios," he said. "Based on the pluses and minuses, I'm more focused on looking for opportunities to buy in here."

U.S. companies and consumers have reduced debt to historically low levels, corporate profits continue to be strong, commodity prices have dropped, and the housing market appears to be bottoming, with improvements in even some of the hardest-hit areas, Smetek said.

There have been significant sell-offs in many stocks.

Shares of **JP Morgan Chase & Co.** (JPM, $33.68) and **Apple Inc.** (AAPL, $580.32) have fallen because of situations unique to those companies. Other economically sensitive, high-quality stocks with strong financials, such as **Ford Motor Co.** (F, $10.66), have been swept down with the overall market and are selling now at attractive valuations, Smetek said.

EOG Resources Inc. (EOG, $93.88), Houston, engages in the exploration, development, production and marketing of crude oil and natural gas.

EOG's stock has been hit by declining energy prices, but it is one of the best-managed in its industry, Smetek said.

The company was one of the first to exploit shale gas opportunities, he said. But in recent years, EOG timed its move away from gas toward oil nearly perfectly, as gas supply grew and prices declined.

Mark G. Papa, EOG's chairman and chief executive officer, is retiring, but Smetek has confidence in the rest of the management team.

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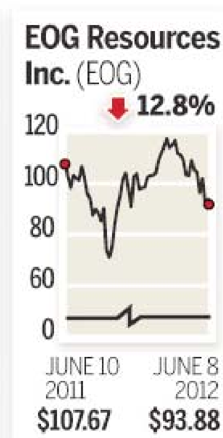
"Their technology is good and the company is well-capitalized," he said.

The biggest risk with the stock is the possibility of another economic slowdown or a continued decline in commodities prices, Smetek said. EOG shares have traded in a 52-week range of $66.81 to $119.97. Smetek said the shares could reach $120 or higher in the next 12 months.

Caterpillar Inc. (CAT, $87.60), Peoria, Ill., is the world's largest maker of bulldozers, excavators and other heavy construction machinery. It has a dominant share of the U.S. market and a major international presence.

Caterpillar has done a good job of integrating Bucyrus International, a Milwaukee mining equipment company, since its acquisition last July, Smetek said.

These economically sensitive shares have struggled this year, but would bounce back if Europe and emerging markets began showing more strength after several years in the doldrums, he said.



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"This is a world economics play," he said.

The biggest risk with the stock is the possibility of more significant economic problems outside the U.S., Smetek said.

Caterpillar shares have traded in a 52-week range of $67.54 to $116.95. Smetek said the stock could trade as high as $115 or more in the next 12 months.

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About this

The Journal Sentinel focuses on one Wisconsin money manager or analyst in this weekly feature, looking at a trend that helps investment pros make their decisions.

This column examines one stock through the eyes of a professional investor to show how market pros make investment decisions. Neither Kathleen Gallagher nor the Journal Sentinel recommends specific investments or endorses the recommendations of those interviewed.

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