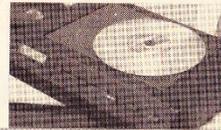


# Business

## WEB EXTRA

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But it's not a happy birthday for the CD, as listeners turn to iPods and digital downloads. [www.lohud.com/business](http://www.lohud.com/business)



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## Market experts look for economic stability

### Fund managers see 'correction' leading to a Fed rate cut

Jay Loomis  
The Journal News

Gabriel Gibs worries that a turbulent investment climate could get even worse as the stock market struggles to bounce back from the subprime loan mess and shaken investor confidence.

"The next few days will be very important," said Gibs, the co-manager of the Volumetric Fund, a small

mutual fund in Pearl River. "What the volume indicators are telling us is that a lot more people want to get out of the market than get in."

During another day of frenzied trading punctuated by huge swings, the Dow Jones Industrial average and S&P 500 index were down more than 10 percent from their July peaks before rallying late in the session. That is significant because a decline of 10 percent is what Wall Street officially calls a market "correction." A bear market would be a drop of 20 percent or more.

Gibs and other fund managers with ties to Westchester and Rockland counties have watched the

carnage like their counterparts nationally during the past three weeks. In response, Gibs has increased his fund's cash cushion until the storm blows over. Other managers view the selloff as an opportunity to buy beaten-up stocks at bargain prices.

Gabriel Gibs

gathered speed as investors worried that the rising defaults on subprime mortgages to riskier borrowers could drive the economy into a recession. Already, more

### Inside

Wall Street wants Fed to cut rates before Sept. 18 meeting, 10C

than 70 mortgage companies have gone out of business around the country and half a dozen hedge funds have imploded, according to Bloomberg News. Volatility in the stock market has reached five-year highs. Some analysts are worried that consumers may respond to the weak housing market and their shrinking stock portfolios by pulling back on their spending, putting the economy at risk.

Gibs has more than 25 years of

experience picking stocks through both good and bad markets using trading volumes as an indicator of money flowing in and out of stocks. Currently, his mathematical models are telling him that it is a good time to sell financial stocks that have been hardest hit by the subprime problems and increase the fund's cash position.

Currently, his fund is holding 24 percent of its assets in cash, up from 9 percent June 30.

It is Volumetric's largest cash position since 2002, the last year of a three-year bear market that included the tech bust and the corporate accounting scandals at En-

ron and other companies.

Gibs is more optimistic in the long term.

One factor that could help the market rally from the recent lows is a potential interest rate cut by the Federal Reserve, he said.

"They want the economy to stay strong," Gibs said. "So I expect that they would cut rates if the market got much worse."

At the worst levels yesterday, the Dow was down 340 points, pushing it below the levels needed for the 10 percent correction from its all-time high of 14,000 in July.

Please see MUTUALS, 11C

## Market professionals look for economic stability

MUTUALS, from 9C

Yet, after a late rally, the Dow closed the day down only 15.69 to 12,845.78.

David Katz, chief investment officer of the Matrix Advisors Value Fund in Manhattan, is avoiding investments in companies with direct exposure to subprime, including mortgage lenders. But the Chappaqua resident said that the downturn may be overdone. He said that there are bargains across a broad range of market sectors, particularly in large-cap stocks that have been unfairly punished.

"We look at this selloff as transitory," Katz said. "We think the underpinnings of the market are favorable. As a result, we are attempting to get into position for a market recovery over the next six to 12 months."

He said that his fund has recently expanded positions in companies such as oil and gas producer Devon Energy Corp., industrial conglomerate Tyco International and insurer American International Group Inc.

"We think the economy is still sound," Katz said. "Stock valuations to us look reasonable."

Few sectors of the market have been hit harder by the subprime woes than real estate and mutual funds focused on that area. For example, the Alpine U.S. Real Estate Equity Fund in Purchase is down 15.6 percent this year. That is a sharp reversal from a few years ago when the fund, heavily invested then in home builders, soared in the midst of America's housing boom. More recently, the fund's

largest positions included hotel companies.

Alpine chief executive Sam Lieber could not be reached for comment.

In a conference call with investors on Tuesday, he sounded optimistic about a rebound.

"Look, from a big-picture perspective with the global economy, we're fine," Lieber said on the conference call. "I really believe that the issue now is a matter of confidence. It's restructuring of the capital markets. We're not out of the woods, by any means. But I think that the fundamentals here are still pretty good."

Phillip Goldstein, principal of Bulldog Investors in Pleasantville, said he expects to find bargains in closed-end funds with exposure to corporate, government and junk bonds. The bond market has been volatile during the subprime crisis.

"In any economy, dislocations are inevitable," said Goldstein, who oversees five hedge funds. "For a while, people think it is the end of the world. Markets tend to overreact. But things ultimately stabilize. ... As we look over the hill, this may be a case of accepting short-term pain for long-term gain."

So far the damage is not close to other market crises during the past 20 years.

The Dow plunged 508 points on Oct. 19, 1987, also known as "Black Monday." The drop of 22.6 percent was the biggest one-day crash in Wall Street history.

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