

# As the Economy Slows, A Conservative Approach To Stocks May Benefit Investors



(NAPSA)—Investors may want to take a more conservative approach to stock investing as the U.S. economy continues to slow during 2007, a group of investment professionals from Eaton Vance advised. A focus on large-cap, high-quality, domestic stocks may help investors' portfolios better withstand the market volatility that is likely to ensue in such an environment. The mutual fund managers made their recommendations at a recent market outlook discussion hosted by the investment management firm.

"For investors who may have moved out of stocks in favor of bonds earlier in this decade, now may be the time to come back to stocks," said Michael Mach, portfolio manager of Eaton Vance Large-Cap Value Fund. "Our outlook for the stock market is optimistic, and we believe some of the more conservative sectors of the equity market are among the most attractively valued today."

Mach explained that more conservative investors tend to like large-cap stocks, which currently offer substantial relative value over smaller capitalization issues. Historically, small-cap stocks have tended to be more attractively valued than their large-cap brethren.

However, due to an extended period of strong performance, he believes small-caps are now overvalued on a historical basis. By contrast, large-cap stocks

may be well positioned for capital appreciation.

"It is time for investors to consider adding to holdings of large-cap, blue chip stocks, as we believe large caps are about to take over market leadership," said Mach. "Higher-quality stocks provide a level of assurance in a more volatile market environment, offering lower volatility, stronger balance sheets, and greater competitive stability."

The economy's strength, since the tax cuts of 2003 bolstered the strong growth of low-quality stocks. However, as economic growth has slowed, the earnings growth advantage that small caps have enjoyed over larger firms has begun to narrow dramatically. As earnings growth continues to moderate in response to the slowing economy, history suggests higher-quality stocks are likely to outperform. Of course, past performance is not a guarantee of future results.

More conservative investors may also tend to favor domestic stocks because of a familiarity with accounting rules, the legal environment, regulatory environment and corporate governance mechanisms. However, domestic stocks have underperformed overseas stocks in recent years. Last year, about 91 percent of \$158 billion invested in equity mutual fund flows went into non-U.S. stocks, according to the

Leuthold Group. In fact, during some periods of 2006, flows for domestic stock funds were actually negative.

"The increase in non-U.S. stock flows is a signal that investors should shift their focus from international to domestic stocks," said Mr. Mach. "As Sir John Templeton has often said: avoid what others are aggressively buying and buy what others are despondently selling."

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