Lower Volatility in 2010 Will Tempt Investors to Deviate from Long-Term Strategies, Virtus Chief Market Strategist Joe Terranova Says

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HARTFORD, Conn., Jan. 27 /PRNewswire-FirstCall/ -- The pace of the capital markets recovery will begin to moderate in 2010. The Fed will pull the plug on handouts to the private sector and remove some liquidity. There will be pressure on Treasuries, a shift from a cyclical recovery to a quality recovery, and opportunities in the corporate bond market. It's all a question of when, says Joe Terranova, chief market strategist for Virtus Investment Partners in his latest commentary, It's the Tortoise, Not the Hare in 2010.

(Logo: http://www.newscom.com/cgi-bin/prnh/20090105/NEM020LOGO)

It's a waiting game that will test investor patience throughout the year. "The comfort assets of 2009 will be favored once again in 2010; the difficulty for investors will be in maintaining the discipline to adhere to their initial investment strategy. Low volatility markets can be incredibly dangerous as they continually tempt investors to change course." However, as he did throughout 2009, Terranova encourages investors to continue leveraging opportunities to deploy capital into the markets.

Terranova believes the Fed will move steadily throughout the year to unwind its "bloated" balance sheet. Federal Reserve Chairman Ben Bernanke is waging a war against deflation, and will need to see at least three positive signs - sequential improvement in unemployment, a rebound in housing prices, and growth in the domestic economy that is above expectations - before the Fed makes any significant change in policy.

As the government starts to issue more long-term debt, it will be harder for the Fed to control the longer end of the 10-year Treasury yield curve. That will create a downtrend in the 10-year Treasury yield, Terranova says.

"Remember that corporate bonds do very well in a low volatility market," Terranova says. "If you're not going to stay in Treasuries, corporate bonds may be a good place to park investment dollars this year."

On the earnings front, Terranova suggests that "earnings exuberance exhaustion" may get the best of investors by the start of the second quarter, as the recovery in the capital markets early this year illustrates, perhaps prematurely, an independently healthy private sector.

Terranova, who has specialized in the energy and natural resources space, sees natural gas as a "sleeper" investment pick of 2010. He notes that Exxon Mobil's recent decision to purchase XTO Energy, one of the nation's largest gas producers, is telling. "By doing this deal, the biggest company in the world is telling us that natural gas will replace coal as the second largest source of energy, domestically." This deal will help re-draft energy policy in Washington and "will elevate the position of natural gas in future energy policy like never before."

About Virtus Investment Partners, Inc.

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