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Subprime exposure worries some advisers

By **Davis Janowski**
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NEW YORK — Client portfolios may be affected by the fallout from turmoil in the subprime mortgage market — but advisers aren't exactly sure where the problems may lie and don't believe their software tools can give them timely answers.

"I have been concerned about the subprime situation for quite some time. I do not believe that we know exactly what the exposure is at different layers of investment," said Pasquale J. Sacchetta, president of CFGI Wealth Management of Westport, Conn., a consultant to registered investment advisers who also manages more than \$40 million in assets.

Although many of his firm's clients, and those of the advisers he works with, use separately managed accounts, which allow advisers to search for stocks and other holdings that are known to be associated with subprime mortgage securities, the problem is identifying which companies and securities have such exposure.

"The only problem right now is that we don't know what it is we don't know. I believe each passing month will shed more light on the true exposure to the subprime market and its derivatives," Mr. Sacchetta said.

Peering into mutual fund holdings is also a challenge.

"Our advisers can run reports using a direct data feed from Morningstar," said Michael Shelly, vice president of business technology management at Raymond James Financial Services Inc. of St. Petersburg, Fla., referring to the Chicago-based research company.

"This feature covers the top 10 holdings within a mutual fund, but if what you are looking for is not among them, you won't see it," he said.

Advisers say that part of the problem in uncovering subprime exposure is that mutual fund data can be as much as six months out of date by the time it's available. The fast-changing status of subprime loans also makes their status difficult to track.

"In addition to making sure your portfolio management system can import timely information, the system

user has to possess knowledge of the business practices of the underlying companies," said Howard S. Haber, president of Apollo Wealth Management, Ltd. a fee-only financial planning and investment management firm in Landsdale, Pa.

As an example Mr. Haber pointed out that while Wells Fargo might come up as a company having subprime exposure, an adviser would require in-depth knowledge to recognize that the company does only minimal business in the subprime area and would therefore pose minimal risk to a client invested in the company's stock.

Good research can help, he said, "but the more up-to-date stuff is hard to come by unless you have a good relationship with someone at the firm where you're trying to buy the research."

Richard J. Krasney, of Krasney Financial LLC, an RIA firm in Mendham, N.J., with more than \$200 million in assets, isn't overly concerned with the subprime situation though he admits that he's spoken with a few nervous clients.

"I think subprime is another blip on the radar screen," he said. "At most we are making some minor adjustments to holdings."

His firm uses Morningstar Advisor Workstation and he expressed confidence in both how current the data is and the system's research abilities.

While advisers at large firms may have access to comprehensive data provided by such big companies as London-based Reuters Group, New York-based Bloomberg LP and the Standard & Poor's unit of New York-based The McGraw Hill Cos. Inc., smaller advisers are unlikely to tap current data on ratings changes and other developments.

"There's really no way around it. Small-firm advisers are going to need to be more aware, knowledgeable and self-reliant in this area," Mr. Haber said.

Some advisers prefer to rely on their human contacts, especially when it comes to mutual funds.

"I like the old style of getting to know the people managing the fund, their style and philosophy," said Jeff Daniher, a principal with the fee-only firm of Ritter Daniher Financial Advisory LLC, which oversees more than \$100 million and is based in Cincinnati. "One of the problems with relying on technology to get at the sort of information you need to judge subprime is that the data is usually dated by the time you can see it," he said.

Ritter Daniher's close correspondence with fund managers has helped minimize subprime-related risks, Mr. Daniher said.

But it was an article that he came across on the Web more than four months ago that first alerted him to problems associated with subprime loans, he said.

"Since then we've purposely avoided investing in this area because we couldn't quantify this risk," Mr.

Daniher added.

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