

SmartMoney

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Dow Drops, But Defense Is Costly

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With the market down more than 700 points in less than 24 hours, investors are clearly running for traditional havens like bonds and defensive sectors of the stock market. But that protection comes at a price.



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In a research note yesterday, Bank of America analysts said it was taking the position that the U.S. was already in a recession and investing accordingly, favoring telecom stocks, health care companies and consumer staples — the first time the bank has allocated so defensively since September, 2008. Meanwhile, individuals are flocking to bond funds. Investors pulled nearly \$2 billion out of equity funds in the week ending Sept. 14 and added almost twice that (\$3.85 billion) to bond funds, according to the [Investment Company Institute](#).

But investors who flock to these traditional safe havens will pay for the privilege. From Treasuries to defensive stocks to currencies, the more conservative investments are relatively expensive. “There’s not a whole lot of upside there,” says Scott Cramer, president of Cramer & Rauchegger, a financial planning firm in Winter Park, Fla. “The pickings are slim.”

Investors who buy Treasuries now are paying a high price for a record-low yield. The 10-year Treasury closed at 1.88% Wednesday, the lowest in available history. That is also slightly less than the average 2% dividend yield on S&P 500 stocks, a rare scenario that should make

stocks more appealing than the seemingly risk-free Treasury bonds, says Jeff Bernier, president of TandemGrowth Financial Advisors in Alpharetta, Ga. And with inflation at 3.6%, Treasury bond holders aren't even keeping up with rising prices.

As for stocks, BofA isn't alone in turning to sectors that are expected to hold up well if we enter a recession. Food company stocks, a traditional defensive play – people still have to eat – are looking expensive. For example, Kraft and General Mills sell at about 15 times expected earnings at a time when a fifth of the companies in the S&P 500 index have price/earnings ratios in the single digits.

Safe haven currencies and other defensive assets, like gold, aren't cheap either. Investors have pushed up the price of the Swiss franc and the Japanese yen to the point that both governments have intervened to lower the values. Gold, at about \$1,750, is slightly down from its August high, but still high by historical standards.