

Investing locally: pros and cons

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READING EAGLE

THERE WAS a time when investing in locally owned firms was seen as a way of boosting the local economy, as well as helping one's friends and neighbors who may have been employed by such companies.

In the global economy, there probably are fewer investors gathered under the buy-local umbrella, but judging from phone calls, letters and e-mails from our readers, many in Berks County still have a great deal of interest in seeing local firms perform well.

With that in mind, we asked brokers and financial advisers in the area what they would recommend to their clients who feel strongly about supporting local firms. Their responses:



William J. Cerynik, financial adviser, Waddell & Reed Financial Advisors:

"Investing in local companies is an admirable goal, but the same principles apply to investing locally as they do nationally or globally. Investing always involves risk and it creates the opportunity to see a potential profit or loss on that investment. Regardless of the stock you buy, you should understand the company's financial situation, market position, management track record and so forth before deciding if the investment makes sense for you.

"It is generally advisable to consult an investment advisor beforehand, but you also can purchase stock directly through an online brokerage service. As with any investment, it should match your broader portfolio objectives by factoring in risk tolerance, time horizon and income tax factors. Don't sacrifice good judgment just to invest in a company you pass on the way to work every day. Measure twice, cut once!"



Jay R. Kemmerer Sr., president and chief executive, Berkshire Advisors Inc.: "I would say that the basic fundamentals still apply, whether you're looking at a Philip Morris or a smaller regional play. You've got to look at the assets, liabilities, earnings potential and the sector. If you buy the local company, is it going to

complement what you have already, which should be a balanced portfolio? Will it complement that balance of your existing strategy? Are the earnings going to be there going forward if the economy turns?

"I would also say, if you look locally, there's plenty of success stories; there's also those where people might have lost 80 or 90 cents on the dollar. Sometimes the smaller, local things that you buy, you might have to wait longer for things to come back to you.

"I tell people, 'Let's not get overly greedy.' Try not to have more than 5 percent of your holdings in any



one position. A lot of my clients have inherited bank stocks from parents or grandparents, and may have accumulated a lot of shares, only to see that shrink (in value). If you own more than 5 or 10 percent in any one position, you want to make sure you're comfortable with that. You're not going to get rich overnight owning 5 percent of that stock play, but you're also not going to get poor overnight, either.



Terry L. Morris

Terry L. Morris, senior equity manager at National Penn Investors Trust Co.: "When considering an investment in any company, local or otherwise, it is important to recognize that great companies don't always make great stocks. This is because there are often high expectations already built into the price of

the stock. The trick is to buy and hold companies that you believe have both a bright future and attractive valuations.

"Ask yourself the following questions: Does this company provide products and services that you believe will be in demand well into the future? Is the company financially sound? Do you think there is a fair chance that the company can do better than most investors think? Do you believe the stock is attractively priced relative to your expectations?"

"If you answer yes to these questions, then you may have a good long term investment opportunity. Remember that you may have to be patient until your idea works and that your idea will likely be affected by industry trends and general market direction."



Robert Wert

Robert Wert, managing director, investments, Wert Investment Consulting Group of Wells Fargo Advisors: "Investors in local companies have the opportunity to attend the annual meeting of shareholders. This is a unique opportunity to meet senior management, hear their corporate presentation and ask questions."



Scott A. Worley

Scott A. Worley, wealth strategist, Herbein Wealth Management LLC: "Everybody would love to support their location by investing with companies they know. The danger in that is that you feel good about it because you have a tie to the community and feel you might have an advantage over some of the other

traders out there. You might think, 'I know about XYZ Co., so I'm going to heavily load up in this company.' And that can be dangerous.

"Some of your human capital may come from those businesses as well, which doubles the risk. Not only is your paycheck coming from that company, but you're also investing in that company. While that may be attractive, investors need to properly diversify their investments. That's our biggest concern. Having a little bit here and there is not going to hurt anyone, but certainly you wouldn't want all your eggs in the Berks County basket. A lot of companies today also are advising participants that it may not be a good idea to elect to hold all of your 401(k) assets in one company's stock."

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