INVESTMENT RESEARCH FIRM OFFERS NEW YEAR’S FORECAST

Money manager Frank James anticipates temporary ‘boomlet’ on economic horizon

By Tim Tresslar
B2B Staff Writer

Sit down with father-and-son money managers Frank and Barry James and talk invariably turns to the economy, especially as a new year dawns.

James Investment Research, the company founded by Frank James nearly four decades ago, caps each year by providing clients with an economic prognosis for the year ahead.

After a tough couple of years, the economy looks poised to grow a little, Frank James said. “We think we’ll have a temporary boomlet,” he said.

The Christmas season likely will be the best in at least a couple of years and the employment outlook will improve some, he said.

But the firm expects limited growth, with the gross domestic product expanding by 1 percent to 3 percent and lingering high unemployment, he said.

Recovery from financial panics — such as the one the country has experienced — take longer than rebounding from a typical recession, where the Federal Reserve can ignite a recovery by adjusting interest rates, he said. Interest rates already are well below 1 percent, and they don’t seem to be helping to encourage a recovery, he said.

“I really think the psychological aspect is part of it,” he said. “But typically when the financial system

Things to think about

Frank James, founder and chairman of James Investment Research, says buying solid, but depressed, stocks can pay off.

For example, his Alpha-based company held shares in a food manufacturer. While the stock’s value had been depressed, an announcement that the manufacturer would be purchased caused the price to jump, he said. “If fortune changes for them, they could do very well,” he said.

Doing well in investing in the next year will require flexibility, said Barry James, president and chief executive. One key will be the ability to move between investing in stocks when they’re hot and on to bonds when stocks cool, he said.

Lower interest rates should help financial stocks do well, he added.

If politicians indeed cut federal spending — and more specifically defense budgets — it could mean less money coming into Wright-Patterson Air Force Base, Frank James said.
The James Investment story

In 1972, Frank James started the company with his wife, Iris, in their house. When he'd worked on his doctoral dissertation, the elder James learned computer programming skills. They moved into their current location at 1349 Fairground Road in Greene County in 1994.

He thought having a computer would improve his ability to research and decided that when the company reached the $10 million threshold, he’d buy a computer to use for research and some administrative tasks.

“I always thought if I could get a small computer, I could computerize a lot of things and do a better job for my clients,” he said.

After 21 years in business, Iris left the company to spend more time with American Saddle horses. However, their sons Barry and David are senior managers with the company.

In the meantime, the company has grown to have $2.2 billion in assets under management. It employs 17, including a seven-member investment committee.

Frank James said he considers his staff one of his most important assets and he never has laid off employees during economic downturns. Instead, the company was able to hold on to people by cutting back on the salaries of senior managers, he said.

“If you’re going to cut somebody, or cut their wages or hours, you ought to start at the top, not the bottom,” he said. “Your people are really your most important resource next to your clients.”

gets strained, it means credit is hard to come by and frequently people have too much debt. They need to clear it up before the banks will loan them any more money.”

In terms of the stock market, it’s been a choppy decade, Barry James said. Convention- al wisdom would lead some to think the market’s due for 10 good years. However, price- to-earnings ratios for stocks remain high so there’s less opportunity for them to increase in value.

In the short term, though, the young- er James said stocks look attractive, in part because they typically perform best in pre- election years. In the years between elections, large-cap stocks can gain 24 percent while small-cap stocks could grow 36 percent, he said.

He tempers this by pointing out that selling of stocks by insiders has accelerated. The company anticipates more volatility in the stock market, he said.

Stocks for manufacturers, particularly those who export products, likely will do well because the weak dollar will heighten foreign demand for American goods, Barry James said.

The midterm elections, with control of the house shifting to Republicans, could make bonds more attractive, if the changes result in gridlock, which benefits the bond market, Frank James said.

On the international front, some areas con- tinue to pose uncertainty. Riffs between the Iranian Majlis, or parliament, and President Mahmoud Ahmadinejad and anticipated leadership changes on the Korean Peninsula likely will remain points of interest next year, Frank James said.

Food — or lack thereof — also will be an issue, Barry James said. Russia and China will not be able to feed their people with only their own food output, which could benefit the American agriculture sector, he said. China, however, will face other challenges, such as a need to generate millions more jobs for its people and social unrest caused by poverty, he said.

The strength of the euro also will remain a concern in the upcoming year as coun- tries such as Ireland struggle to deal with debt problems, Frank James said. The market using the euro is roughly the same size as the one for the U.S. dollar, making the health of the euro — which he called “frayed” — an important issue, he said.

“The crisis in the euro is very real,” he said.

Contact this reporter at (937) 225-7317 or ttr estrar@DaytonDailyNews.com.