

Four Ways Investors Can Play Stock Market's Relief Rally

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Despite Monday's huge rally, investors are taking a somewhat skeptical view of Europe's \$1 trillion bailout fund and looking for areas of safety, not risk.

The big surge in the major stock indexes, in fact, all came at the open, with markets giving up some of those gains the rest of the trading session.

Investors were left to decide whether the bull market rally was back in gear or last week's market meltdown portended tough times ahead.

"There's too much volatility in the financial markets and that sometimes inhibits growth to a degree," says Kim Rupert, managing director of global fixed income analysis at Action Economics in San Francisco. "Try not to make big investment decisions on these days when we're moving big figures at a time. Monitor the situation. It's a really difficult investment environment."

CNBC.com checked with some investment experts to see how best to play Monday's relief rally and found four general themes:

1. Avoid Europe

While US markets rallied in response to the European bailout plan—dubbed "*Les TARP*" by some—the reaction had more to do with domestic issues than European markets.

After all, the fear over Greece—and the rest of Europe—was always more about its debt problems spreading beyond its borders to the US.

"Europe is stable as an economy but I don't find a lot of opportunities among European companies," says Jordan Kimmel, market strategist at National Securities in New York. "Not a lot show up in my models of fastest-growing healthy companies. You're finding them in America, finding them in Latin America, finding them in China. Europe is stable but not a growth environment."

At least—and, perhaps, at most—the apparent resolution of the European debt crisis could rid the global investment environment of a headache that would stand in the way of the mostly intact recovery picture.

"A lot of the problems last week correctly were laid at the doorstep of Europe—the idea that while Greece isn't a very large country and while it's not that meaningful in the grand scheme of things, it sets a template for how the EU is going to handle the rolling issues of sovereign debt remaining across the Mediterranean," says David Twibell, president of wealth management for Colorado Capital Bank in Denver.

"It still makes sense to own equities at this point, but I would be light Europe and overweight Pacific Rim," he adds.

2. Stay With Quality

Using the recent stock market slump, which wiped out most of 2010's gains, to buy best-of-show companies was a recurring theme through the day on Monday.

"There's still much more upside in the stock market, through the rest of this year, and possibly 2011," Andy Bischel, CEO of SKBA Capital Management, said in a CNBC interview.

Bischel recommended companies such as CNBC-parent **General Electric** [GE 18.25 ▼ -0.19 (-1.03%)], as well as agriculture manufacturer and distributor **AGCO** [AGCO 33.59 ▼ -0.19 (-0.56%)].

Todd Rosenbluth, equity analyst at Standard & Poor's, recommended investors look for "diversification, low-risk and high-quality" with mutual funds such as **Scout International** [UMBWX 28.32 ▲ 0.36 (+1.29%)], **Matthews Asia Dividend** [MAPIX 12.88 ▲ 0.07 (+0.55%)] and **Tweedy Browne Global Value** [TBGVX 21.69 ▲ 0.23 (+1.07%)].

Paul Schatz, president of Heritage Capital, was less optimistic about the market and recommended investors pick up Dow stalwarts **Johnson & Johnson** [JNJ 64.95 ▲ 0.05 (+0.08%)] and **Wal-Mart** [WMT 52.66 ▲ 0.18 (+0.34%)] as well as **Alexion Pharmaceuticals** [ALXN 53.41 ▲ 0.13 (+0.24%)].

3. Cash is Good

The Chicago Board Options Exchange's **Volatility Index** [VIX 24.74 ▼ -0.78 (-3.06%)] fell more than 30 percent at one point. But the VIX primarily measures downside fear. It doesn't, then, represent volatility in the context of wild price swings that can sting investors not paying attention.

In that climate, investors can benefit from simply waiting it out until the market settles into a more predictable pattern. Raising cash by taking profits never, as they say, caused anyone to go broke.

"I would use this as an opportunity to raise cash as a risk-management tool," Twibell says. "We wouldn't necessarily raise a tremendous amount of cash, maybe 10 or 15 percent. That would give you a little cushion and a little powder to deploy."

Twibell also favors the strategy of looking for quality.

"We had very good gains at the start of the year. If you participated, you probably have good profits," he says. "Protecting those isn't a bad idea in this environment."

4. Find Some Undervalued Stocks

One of the cleverer strategies of the day came from Sam Stovall, S&P's chief investment strategist. Stovall took one stock from each of the 10 S&P sectors that was the greatest distance from its closing Friday and its projected 12-month price target.

What he came up with was a list of stocks that mostly outperformed the market Monday.

His picks were *Standard Motor Products, Philip Morris, CONSOL Energy, Credit Suisse, Cytokinetics, Continental Airlines, KongZhong, POSCO, MetroPCS* and *Dynegy*.

While it's a strategy that may not always work, it also can help investors shun the erratic events being played out in the world financial markets.

"You don't have to run away from the market completely," Twibell says. "But you don't have to be a hero."