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UPDATE: Get Set For Lower Long-term Stock Returns, Pimco Director Says

BOSTON (Dow Jones) -- Paul McCulley, managing director at Pimco and author of "Your Financial Edge," says that investors are too worried about what will happen next -- say, over the rest of 2007 -- than about the big picture.

According to McCulley, the high-altitude view shows that stock returns will be lower for the next 25 years than they were in the last quarter century and investors must adjust their expectations to lower returns.

In a radio interview with Chuck Jaffe, MarketWatch senior columnist, McCulley said he expects stocks, on average, to return 6% to 8% annually rather than the 10% most people use as a historic guide and noted that investors should " remember that it could be in the bottom of that range."

McCulley noted that the stock market's long-term erosion will force consumers to make one of three unpleasant financial choices: work longer, save more of their current income or reduce expectations for their retirement lifestyle.

"Stop looking at the future through the rear-view mirror," McCulley said. "The last 25 years are irrelevant ... they were a long journey of disinflation. ... The next 25 years will not be like that."

Listen to the interview with McCulley.

In another interview, Sonya Morris, editor of the Morningstar ETFInvestor newsletter, said that growth in exchange-traded funds should force investors to examine the newest products carefully before taking the plunge.

Morris urged investors to look at the construction index and to avoid things like "clean energy" funds such as PowerShares WilderHill Progressive Energy (PUW) and PowerShares WilderHill Clean Energy (PBW) that have stocks such as Toyota Motor (TM) , which really aren't true energy plays.

Morris said that many of the newest ETFs are gimmicky, ill-conceived or simply not worth holding. She had a long list of suggested "sells," including PowerShares DB Commodity Index (DBC) , First Trust NASDAQ 100 Tech Index (QTEC) , PowerShares DB US Dollar Index Bearish (UDN) and Bullish (UUP) , ProShares UltraShort 100 (QID) and Vanguard Materials Index (VAW) .

She recommended that investors hold Barclays iPath MSCI Index (INP) and First Trust Dow Jones Select MicroCap Index (FDM) .

Her only buys were a cautious recommendation of iPath Dow Jones AIG Commodity Index (DJP) , a bullish call on Vanguard InfoTech (VGT) and a suggestion that many international investors might want to replace their ETF with the Dodge & Cox International Stock (DODFX) .

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