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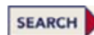

Strategies For Tough Times

A problematic economy calls for good judgment and a willingness to seek expert help.

By Robert Sberna

The volatility of today's financial markets can be unnerving for even the most experienced investors.

The subprime mortgage meltdown, record-high oil prices, and the collapse of several major financial institutions have led to steep declines in stock prices. Add in the costly Iraq War and the possibility of a global recession, and experts are forecasting uncertain days ahead on Wall Street.

People nearing retirement are the most likely to feel the effects of the current U.S. financial crisis. Many market participants have seen their 401(k) accounts and other retirement-saving plans lose 40 percent of their value since October 2007, when the stock market was at its peak.

Despite the market's roller coaster swings, financial professionals throughout Ohio are warning investors to avoid impulsive moves. "Everyone is concerned about this market, but I'm telling my clients to keep a long-term perspective," says Paul Dolce, a certified financial planner (CFP) in the Columbus area. "It's hard to be confident these days about stocks, but history shows us that the market always comes back."

A key to weathering financial storms is portfolio diversification, explains Dolce. Depending on your age, income needs, retirement goals and risk tolerance, your investments should include an appropriate mix of stocks, bonds and cash. "Actually, periods of market turbulence are a good test to determine if your portfolio is diversified correctly," he notes. "If you're the type of person who feels they need to check their investments every day, then maybe you've got the wrong asset mix."

Along with a long-term approach, prudent investors will need discipline. "It's not uncommon for nervous investors to want to switch their money out of a losing stock or mutual fund," Dolce says. "However, it generally makes sense to stick with your investment choices and give them a chance to recover instead of locking in the loss by selling."

Avoid Impulsive Moves

Okay, so the choppy stock market has your nerves on edge. If a losing investment is costing you sleep, you may want to consider dumping it. But experts say you should fight the temptation to pull all of your money out of stocks.

At Focus Financial Solutions in Cincinnati, advisors Martin Kubik and James Brandenburgh say one of their biggest challenges is to keep their clients invested. "The biggest risk for a client is to be totally out of the market when it turns around," says Kubik, a CPA and CFP. "Of course, we're not going to twist someone's arm to stay invested in stocks. If they are really uncomfortable where they are, we'll make an adjustment. But we certainly want some equity exposure."

Brandenburgh, an investment strategist, says that most investors allow their emotions to drive their decisions. "Right about this time in economic cycles, particularly in election years, people think the sky is falling. But it never falls. That's why it's important to have professional advisors such as us, because we'll approach clients' investments less emotionally than they will. We bring rational thinking to the process."

Kubik notes that investors who are accumulating money for retirement face different challenges than those who are already taking retirement distributions. "Right now, the fear level is higher if you're taking distributions," he says. "You have a finite amount that you can take every month. But the people who are currently saving for retirement have time to recover from the market decline. They also need to know that there are buying opportunities in the market. One of the things we try to do as advisors is educate our clients so they are knowledgeable about the market and they have a comfort level with investing."

Despite the fact that the stock market is a scary proposition right now, experts say you need to have a portion of your money in equities to offset the long-term effects of inflation. "With inflation currently about 5.7 percent, there's a real threat to someone's savings over time," Kubik says. "If you have your portfolio in low-yielding vehicles such as cash, you're guaranteed to lose 5 percent a year."

Continue 401(k) and IRA Contributions

While many investors are sitting on the sidelines until the markets return to some semblance of predictability, experts say that 401(k) plan participants should continue regular contributions to their accounts. The opportunity to purchase stocks at discounted prices and the added benefit of employer matching contributions make the 401(k) plan even more attractive as a retirement accumulation vehicle.

Since its inception in 1981, the 401(k) plan has gained widespread popularity. The broad appeal of the 401(k) is due, in part, to its investment flexibility. Most plans offer a spectrum of investment options that include stock, bond and money market funds.

But along with the array of investment choices, participants have the responsibility of allocating their money. Ultimately, the size of your retirement nest egg depends on how much you put in your 401(k) and how well you invest it. Because employers may be held liable if they provide investment advice that results in financial loss for employees, most corporations are careful to offer information, not recommendations, to their 401(k) plan participants.

While the market volatility has sent many jittery employees to their firm's employee benefits department for guidance, they are typically told to consult their own investment counselors.

The best advice for most retirement investors is to maintain an appropriate asset allocation and diversify their holdings within that allocation, says Jim Lineweaver, president of Lineweaver Financial Group in Valley View.

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Lineweaver says individuals of all ages can roughly determine their ideal asset allocation by subtracting their age from 100. For example, if you're 60, you should have no more than 40 percent of your money in riskier investments such as growth stocks. The remaining 60 percent of your funds should be in more conservative vehicles such as bonds, preferred stocks, and money market funds. "Its an over-simplified method, but it holds true," he says.

Lineweaver adds that a portfolio's structure is sometimes just as important as its holdings. As an example, he explains that income-producing investments should be held in a tax-qualified plan such as an IRA (Individual Retirement Account) to take advantage of the plan's tax deferral. At-risk investments such as growth stocks are best held outside of an IRA, so that if a stock "goes south," you can sell it and write off the loss against any earnings.

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Seek Good Advice

In today's fast-moving financial markets, it's become difficult for investors to self-manage their accounts, says Lineweaver, noting, "This dynamic environment requires that your investments be monitored by an advisor who understands the markets and can apply that knowledge. It's very hard for the do-it-yourselfer unless you want to spend a lot of time learning about different disciplines. A good advisor can watch your portfolio for you and enable you to spend your time doing what you do best."

As a specialist in retirement planning, Lineweaver recommends that individuals in their 50s and 60s should scale back their investment risk and adapt their lifestyles to the current market conditions. "Don't take on too much debt, don't get overextended, and live within your means," he explains. "Too many people get greedy and rely on the equity market. But you can't do that if you don't have time for the markets to recover."

If you're anxious about the lifestyle you'll be able to afford on your retirement income, Lineweaver has this advice: "As you lead up to retirement, calculate your monthly expenses and your projected retirement income and try to live on that amount of money for a couple of years before you actually retire. You'll then have a realistic picture of what your retirement will be like. And that will give you time to tweak your expenses or determine whether you need to work another year to pay off debt. Keep in mind that it's never too early to have a plan."

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