Protecting Your Money in These Uncertain Times

You're earning it; here's how to keep it.

BY WILLIAM J. LYNOTT

You're working hard for your money in a tough, competitive business climate. Today's troubled economy has made it more important than ever for you to protect those hard-earned dollars you've been able to save and invest for your future. Whether your retirement nest egg is a thousand dollars or a hundred thousand or more, it has never been more important to protect your retirement funds from the potholes that line today's road to financial security.

The roller-coaster economy, skyrocketing costs for food and energy, and the uncertain effects of civil unrest in many parts of the world all threaten to eat away at the safety net provided by the money you've been able to put aside for your future.

Here are seven steps you can take now to protect that money from the threats posed by today's volatile economy:

Don't Panic

If you're like most professionals, you have some investments in the stock market. Whether they are in a retirement program such as a 401(k) or IRA or in a regular brokerage account, it's important to stay the course. "Fluctuations in the market are a natural part of our economic cycle," says Stacy Francis, Certified Financial Planner and founder of Francis Financial, New York, NY. "When the market is in a downturn, it may seem logical to cash out and go home, but before you do that, you may want to think about your long-term goals for that money."

Market downturns, even recessions, are relatively common in our society and are a normal part of a free economy. A recession, technically speaking, is a decline in Gross Domestic Product (GDP) for at least two consecutive quarters. That definition alone makes it rather easy for us to slip into a "recession." Even with that somewhat liberal requirement, recessions have become of shorter duration and much less severity than they were in the past.

According to studies by Ned Davis Research, since World War II, the average expansion in our economy lasted 57 months while the average recession lasted 10 months. In the past 20 years, according to the study, we haven't had a recession lasting longer than eight months.

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All of this suggests that the rules of the game of profitable investing remain pretty much the same. While today's economic troubles may seem of formidable proportion, they are probably no worse than the concerns that bothered investors in the 1960s, or the 1980s, or any other period.

"Many people sell low and buy

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high because emotion drives their investment decisions," says Lisa Featherngill, CPA/PFS, member American Institute of Certified Public Accountants. "Remember, you haven't lost money until you actually sell a security. If you decide to sell, buy something else right away. Studies have shown that your investment returns will suffer dramatically if you miss the best days of the market. Nobody knows when the best days will occur, so stay invested."

In short, investing for a financially healthy retirement still calls for the same kind of common sense approach that has worked so well in the past. Most experts predict that the long-term future will most likely mirror the long-term past--that is, a steady pattern of economic growth with periods of expansions, recessions, and downturns in the market.

Avoid Reacting to Daily Economic Reports

"In an effort to sell newspapers and air time, the media trains investors to look out for the next economic number of the day," says Jordan Kimmel, Managing Director, Magnet Investment Group, Randolph, NJ. "Whether it's employment numbers, capacity utilization, or inflation statistics, there is always a number of the day to tempt investors into overreacting. In reality, it is nonsensical to react to daily economic reports. No investment strategy is better than identifying superior companies and holding them while letting your money compound over time."

Don't Turn Off Your Buying During a Downturn

Some of the world's most successful investors made their fortunes by buying when everyone else was selling. But that's not easy to do. Investing steadily during market downturns may be too much of a psychological adventure for most of us, but there is a system that enables almost anyone to take advantage of those tempting buying opportunities. It's called dollar cost averaging.

"Dollar-cost-averaging calls for spending a fixed dollar amount each month or quarter on a specific investment or part of a portfolio, regardless of the ups and downs of the share prices," says Francis. "By following this pattern consistently, you will purchase more shares when prices are low and fewer shares when prices are high."

For example, if you decide to spend $500 each month on purchasing shares of stock or a mutual fund, you will be able to buy only a few shares if the price is $100 per share. However, if the price goes down to $50, the next month the same dollar investment will buy twice as many shares.

"By making regular and consistent purchases over a longer period of time, your cost basis, the total amount you pay for a security, is spread out. That provides a cushion against normal market price fluctuations," says Francis.

"Dollar-cost-averaging is a time-proven and effective way to minimize the effects of emotion in financial management," adds Kimmel.

Don't Try to Time the Market

"It's better to invest regularly, without regard for the general condition of the economy or the direction of the stock market," says Darrell J. Canby, CPA/CFP, President Canby Financial Advisors, Natick, MA.

"Timing the market, trying to determine the best time to buy specific stocks, rarely works," he says. "You might get lucky once in a while, but your luck isn't likely to last."

Rick Willeford, MBA, CPA/CFP, Atlanta, GA says simply, "Market timing and day trading are for suckers. The financial press makes money from advertising, and they do that by keeping you breathlessly chasing the latest tip or fad. They make money whether you win or lose."

Waiting for stocks to hit the "bottom" before you buy or hit the "top" before you sell has long since proven to be a loser's game for investors. Select the stocks or mutual funds that you buy only on the basis of sound fundamentals.

Maintain an Appropriate Asset Allocation

If there is one point that virtually all financial advisors agree on, it's the critical need for you to maintain an asset allocation suitable to your personal circumstances. Asset allocation refers to the process of dividing your investable assets among stocks, bonds, and cash.

The diversification mix that is right for you at a given point in your life will depend on such things as your age and your tolerance for risk.

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If your retirement is years away, most experts recommend relatively heavy investments in equities, 60 percent or more of your total portfolio. "However, if your time horizon is less than 3 years," says Certified Financial Planner (CFP) Greg Womack, Edmond, OK, "stay in fixed investments like CD's, short-term bonds, and money markets."

For an asset allocation calculator that takes these and other circumstances into consideration, log on to http://www.bankrate.com/calculators/retirement/asset-allocation.aspx.

Once you allocate your assets in the manner right for your circumstances, it's important to rebalance at least once a year. As the price of equities goes up or down, the ratio that you have established will change. If the value of your equities has risen, you may want to sell off some of them to restore your original ratios. If their value has dropped, moving more cash into equities may be appropriate.

"If your portfolio is largely within a 401(k), IRA, or other retirement plan, consider rebalancing every quarter," says Womack. "If it is regular, taxable money, consider at least annually, perhaps more during extremely volatile periods. For rebal-

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ancing strategy to work, you must own assets that don't react the same way over differing market conditions."

Do Everything Possible to Minimize Income Taxes

There are two kinds of dollars: taxable dollars and tax-free dollars. Keeping Uncle Sam's share of your hard-earned money to the legal minimum by maximizing tax-free dollars is a critical part of ensuring a comfortable financial future.

Always be sure to take every allowable deduction at tax time each year. And remember that every dollar invested in your 401(k) or your regular IRA is a tax-deferred dollar. You won't owe income taxes on those dollars until you begin making withdrawals after retirement.

"Creating a plan such as dollar-cost-averaging and sticking with it under all market conditions is the way to maximize your returns," says Kimmel. "Human nature makes it difficult for the average investor to stick to an investment strategy unaffected by emotion. Sometimes it's fear; sometimes it's pure greed. Either way, allowing emotions to affect your investing decisions is certain to damage your financial future."

Keeping Uncle Sam's share of your hard-earned money to the legal minimum by maximizing tax-free dollars is a critical part of ensuring a comfortable financial future.

"It's human nature to chase hot sectors that have already made a significant move," says Womack. "It's also natural to panic and sell-out when everyone else is doing the same."

While it may be the natural thing to do, it's not the smart thing, according to Womack. "It's important to have an investment strategy and stick to it. Remember: if the headlines are full of it and everyone else is doing it, you're probably too late."

There is, of course, much more to the maintenance of your personal finances well suited to promoting a good night's sleep during these scary investment times. However, sticking with these common sense fundamentals will go a long way toward protecting that nest egg so important to your future. PM

Bill Lynott is a management consultant, author and lecturer who writes on business and financial topics for a number of publications. His latest book, Money: How to Make the Most of What You've Got is available in bookstores. You can reach Bill at lynott@verizon.net or through his website: www.blynott.com