

Investors who diversify should not despair, financial experts say

By Ann Handley

Shaky economic times have made many investors suspicious of the soundness of their investments. And news that the recession is deepening, that more banks are likely to fail in some regions of the country and that the war in the Middle East will be far more than a quick skirmish does little to boost their confidence.

"If you start weighing the cumulative effects on the economy of the recession, the war in the Middle East and the bank crisis, you may just decide to lock the doors and stay home," says Todd Much, a financial planner in Chicago.

But investors should not despair. Although Much says there is no investment formula to follow in tough economic times, he and other financial planners agree that some investments will continue to perform well now, especially if you are patient.

Remember, however, that this is generally not a good time to speculate — especially if you are speculating with your life savings.

The cornerstone of every investment plan is diversification, planners say. And a slower and unpredictable economy means you should apply that tenet vigorously. Just as you wouldn't put all your savings in one stock or bond, nor should you put all your money into one bank account or money market fund.

Here are more specific suggestions from the experts on how investors should behave in an uncertain market:

■ **Margaret Miller Welch**, vice president of Alexandra Armstrong Advisors in Washington, D.C.:

"People in the military have a certain degree of job security, especially now. But I still suggest you keep money equal to three to six months of your monthly income liquid, meaning accessible. And if you rely heavily on a [civilian] spouse's income whose job may be less certain, I'd suggest you keep six to nine months.

"A money market fund or short-term CD are suitable vehicles [for that purpose]. Some of my clients want to invest immediately in stocks, but I suggest they wait until they have several months of reserves built up.

"Especially in these less certain economic times, be cautious and build the reserves first.

"Studies have shown that long-term, the stock market provides the best return for money invested. But I don't try to play the market, and neither should you. It's far too volatile and uncertain. Instead, develop a systematic investment policy and stick to it. Investing in a mutual fund through dollar-cost averaging is a good option. [Through dollar-cost averaging, investors invest the same amount of money in a mutual fund at regular intervals over a period of time — preferably at least five years.]

"The banking crisis presents its own problems, too. If you maintain a significant amount of money in a bank, be sure you divide it at \$100,000 increments to receive the benefit of FDIC [Federal Deposit Insurance Corp.] insurance.

"And if you invest money — no matter

the amount — in a bank CD, be very careful. A very high interest rate paid on CDs could be an enticement to attract depositors, and may be a sign of a weak institution.

"Check the institution carefully. If it fails, your principal may be guaranteed, but you could lose any accumulated interest. Plus, you should not go through the anxiety of watching your bank fail. Remember that's there no such thing as a free lunch. You may get a high yield, but you're paying for something."

■ **Michael Sokolski**, partner in Yoshida, Croyle, Sokolski, P.C. in Burlington, Mass.:

"The war in the Middle East is adding to an already huge deficit, meaning that income taxes are likely to go up next year for most individuals to fund the war effort.

"That means investors should move now to protect as much of their income as they can from the future's higher tax rates. At this year-end, take as many expenses as you can. And accelerate your income this year, rather than deferring the taxes you'll pay on it until next year or beyond."

"If you or your spouse are planning on retiring in 1992, for example, and are likely to receive a lump-sum distribution upon retirement, consider retiring in 1991 instead. Or if you are planning to sell a second home or stock investment soon, close the deal this year. It makes sense from a tax perspective."

■ **Donna Nadler**, president of Gallers Financial Group, Inc., in New York City:

"A conservative investing attitude is warranted in a much more volatile economy. Everyone is uncertain what's happening with interest rates, the stock market ... you name it.

"Normally, I'd recommend more than ever that investors keep at least six months of living expenses relatively liquid to tap in an emergency. A money market or CD is a good vehicle to use.

"Then be sure the majority of any money you do invest is guaranteed and invested both short- and long-term. Short-term, I'd suggest Treasury bills or a money market. Longer-term, I'd recommend municipal bonds, government-backed housing bonds or annuities. All represent very safe vehicles.

"Mutual funds are [also] a good option long-term, but you must be able to put your money away for at least five years and not give it another thought. Long-term, mutual funds will make money, but you must have the mental fortitude to ride out the low spots. The biggest mistake investors make is to buy high and sell low because they get scared."

■ **Jonathan Pond**, president of Financial Planning Information in Watertown, Mass., and author of *Safe Money in Hard Times*:

"If you have been investing appropriately in the past, you should maintain a steady course. On the other hand, if your portfolio is imbalanced — stacked too heavy with stocks, or no stock, or low-quality securities — now is the time to clean your portfolio up. I think we're headed for tough times



Margaret Miller Welch: "Build the reserves first."



Jonathon Pond: "Take a look at what you've got, and be sure it's appropriately invested."



Deena Katz: "A good investment strategy is sound throughout any economic cycle."



Robert Klosterman: "Have proper insurance in place."

through the rest of 1991 and beyond.

"In essence, it's important to take a look at what you've got and be sure its appropriately invested. I'm always a big fan of mutual funds, and at a time like this, when individuals are less certain about investment opportunities, I think it makes more sense than ever to stick with mutual funds. For a small price, you get the kind of portfolio management and professional investment advice that most people don't have the time to [uncover] themselves. You can have as much as \$10,000 invested in a mutual fund and pay a \$60 annual fee.

"Mutual funds [investing] fairly equally between stocks and bonds are the best bet, but you must be patient and allow your money to work for you. Leave it there for at least five or 10 years. The only people who can't afford to take that long-term view are either planning to buy a house soon, planning to send a child to college soon, or have one foot in the grave and the other on a banana peel."

"Most mutual funds will continue to do well in tough times. But if you are truly nervous and want to head for the hills, put your money into government-insured prod-

ucts like CDs [certificates of deposit] and some money markets. I'm personally not in favor of that approach, because I think it's unnecessarily cautious. But some people may sleep better at night because of it."

■ **Todd Much**, president of CTS Financial Group in Chicago:

"No matter what shape the economy is in, you should always consider your own situation first to decide what your investment strategy will be.

"Consider six things:

- (1) Your time horizon. Do you want to retire in five years or 20?
- (2) Liquidity. Can you invest money and forget it or might you need to tap it?
- (3) The marketability of the investment. Real estate, for example, takes longer to sell than mutual fund shares.
- (4) The tax consequences of a product.
- (5) The risk you are willing to assume.
- (6) Finally, always diversify. Don't put all your eggs in one basket.

"For most people investing short-term now, I'd suggest they be very conservative. That means stay liquid — money market, short-term CDs, government funds.

"But long-term, I'd suggest a mutual fund that places 70 percent of its funds in equities, the stock market. Longer-term, stocks always will outperform other investments. And there is no reason to expect they won't continue to."

■ Deena Katz, president of Evensky & Brown in Miami:

"It makes no sense to try to time the movement of the market. I'm not a timer, and I don't suggest you try to be one, either. That means that as the economic situation changes, we make changes, but we don't make monumental changes in the way we invest. A good investment strategy is sound throughout any economic cycle.

"The first thing investors must realize is that there are economic cycles which will last, on average, five years. There will be ups and downs. And once you develop an investment policy, you can expect to live through those cycles. Don't let a war or recession scare you out of your policy.

"And don't think you should necessarily buy into the stock market now, when values are down, because you've heard the value of certain companies will rise. That's not investing; that's a crap-shoot. Remember by the time you hear about any movement in the stock market, it's usually already happened. Don't invest in something because it sounds good and you want to get on the bandwagon.

"So what should you do? If you are already well-diversified, I'd tell you to sit tight. For those interested in investing for the first time now, invest in stock mutual funds for the best return long-term. That's the best way to diversify, since one fund will typically invest in approximately 40 dif-

ferent stocks. You're not assuming the risk of placing all your discretionary income into one stock or bond issue, and the fund is managed by a professional."

■ Robert Klosterman, owner of R.J. Klosterman & Co. in Minneapolis:

"Every investment plan should allow for adequate cash to cover living expenses for several months. Also make sure you have proper insurance in place.

"Beyond that, my philosophy is that trying to anticipate the way the market is headed is a futile exercise. I encourage diversity among different types of assets, including stock mutual funds, bond mutual funds, money market funds. Diversify all the money you are investing equally, and then rebalance your portfolio periodically. It's important to rebalance because good performance is usually not sustained indefinitely, and it will reduce your overall risk if you don't allow one asset class to dominate.

"That advice is good for any time, but it's particularly appropriate now, when people are less willing to take risks. People are usually willing to take more risks when times are good."

Ann Handley is a free-lance writer in Tewksbury, Mass.

Free help for Desert Storm troops

Evensky & Brown in Miami is offering free financial counseling to military personnel, reservists and their families who are part of Operation Desert Storm. The offer comes "without any costs, commitment, sales pressure or future obligation of any kind," says President Deena Katz.

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