

Market's recent activity can affect future savings

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By Tim Grant, Pittsburgh Post-Gazette

These days, a wild stock market worries everyone from Wall Street to Main Street.

While financial experts handle multimillion-dollar portfolios, average Americans are feeling the stress too, as they manage everything from 401(k) plans to college funds.

When the economy is doing great it's easier to get good returns. But what can people do to protect and grow their assets in times like these when the market is volatile, the U.S. dollar is in decline, housing is in a prolonged slump and banks are predicting further fallout from the ongoing credit crisis?

"It's not that the world is falling apart. We've just experienced some volatility and certain categories are outperforming and some are underperforming," said Paul Brahim, executive vice president of BPU Investment Management, Downtown. "That's the nature of the beast. That's why you diversify and periodically rebalance."

Mr. Brahim advises his high-net-worth clients to own a mix of stocks and bonds, some U.S. and some foreign. They own stocks of large companies, small companies, growth companies, value stocks, high-quality stocks and high-yield dividend stocks.

"Because every one of those assets at one time is the best performer or the worse performer," Mr. Brahim said. "Diversification mutes volatility. It doesn't take away from returns. This is the thing that's very difficult for people to grasp."

With more companies abandoning old-fashioned pension plans, the shifting burden of responsibility has led more people to pay closer attention to financial news headlines, hoping to become better managers of their own portfolios.

Retirement investing in these turbulent times requires both a long-term and short-term strategy. While the longer-term outlook for U.S. and global economies is positive, many advisers have concerns that certain short-term troubles could have a big impact on investment portfolios for the foreseeable future.

"Whether or not these shorter-term issues turn into longer-term ones is unknown. But caution at this point would be prudent," said Greg Womack, a certified financial planner with Womack Investment Advisers in Edmond, Okla.

If an investor is relatively young or not expecting to retire in the next 10 years, Randy Kurtz, chief investment officer of New York-based RK Investment Advisors LLC, said her portfolio allocation should be 100 percent in stock market index funds as opposed to managed mutual funds, which charge higher fees and often don't perform as well.

"Retirement assets held in stocks should remain untouched for the long term," Mr. Kurtz said. "This necessitates riding the up and down waves of the market, but over time the move will be upward."

In the investment industry, long term usually means between seven and 10 years, but no less than five.

But a stormy stock market is not an investor's only worry.

According to Bloomberg financial news data, the value of the U.S. dollar since 2002 has dropped more than 70 percent against the euro, 44 percent against the British pound, 39 percent against the Canadian dollar and 18 percent against the Japanese yen.

The dollar crisis has prompted some advisers, at least for the short term, to suggest their clients reduce their exposure to stocks and bonds. Instead they advocate alternative investments that are noncorrelated with the dollar. Asset classes such as commodities, energy, crude oil and precious metals such as gold and silver have gained value as the U.S. dollar has suffered a loss in purchasing power.

Gregory Anderson, CEO of GRAnderson Wealth Management Group in Denver, recommends investors diversify their portfolios with exchange traded funds that invest in oil and gas exploration and real estate investment trusts that concentrate on commercial property.

But the weak U.S. dollar has a flip side that is good for investors who own stock in large U.S. multinational corporations that do business overseas. The returns they make in foreign countries are magnified by the difference in currency exchange when that money comes back to the United States, resulting in more profits for shareholders.

"There's a tremendous amount of growth coming from overseas," said Michael Cohn, senior managing director of Atlantis Asset management in New York. "Investors have got to re-evaluate what's going on here and have a very large portion of their assets in large multinational corporations."

That includes a diversified mix of companies positioned in Asia, Europe and emerging markets, he said.

"That is where the growth will be coming from in the next five to 10 years," Mr. Cohn said. "Just owning the S&P 500 is not good enough anymore." The S&P 500 offers no foreign exposure.

Five years ago, Standard and Poor's removed the only seven non-U.S. companies in the S&P stock index and replaced them with seven U.S. companies. The stated purpose of the changes on July 12, 2002, was to make the S&P 500 more closely reflect the domestic large cap equities market.

"We aren't going to predict currency cycles, but if you are truly diversified, a portion of your assets are in internationals," said Mike Freker, an investment manager at AXA Advisors, Downtown. "If you've had a positive return this year it's probably due to currency exchange."

Even investments that usually are perceived as low risk can potentially be affected by the wide reach of the credit crunch.

Todd Harrison, founder and CEO of Minyanville Publishing and Multimedia, a financial intelligence company in New York, said families should make sure the money market funds they have at the bank are fully backed by U.S. treasuries. Many money markets are partially backed by commercial paper, which is vulnerable to default due to the credit crisis.

Banks can renege on the high interest rates they promise customers if the underlying commercial paper goes bad.

"I think we live in the most interesting time in the history of financial markets," Mr. Harrison said. "We've entered a period where people must take proactive responsibility for their finances."

As for the 529 college savings plans, Susan Black, director of financial planning for eMoney Advisor, a software company for financial planners, said families shouldn't be overly focused on what the stock market does on a day-to-day basis. They should just keep making their regular contributions.

"If the market goes down, that's a buying opportunity," said Ms. Black, who is based in Conshohocken, Montgomery County. "Over the long term, the market will go back up and so will your investment in the 529 plan."

She suggests that families heavily weight their 529 funds with stocks if there are 10 or more years before a child will enter college, because stocks have outperformed bonds over time. But they should take less risk as the child gets closer to entering college in case the market plunges right before they enroll.

Though it can be stressful to imagine losing big parts of a retirement nest egg to volatile markets and shifting trends, Jeff Kosnett, a senior editor for Kiplinger's Personal Finance magazine in Washington, D.C., offers some practical suggestions.

"Don't do anything stupid," he said. "Don't invest in anything you don't understand. And if you have been having payroll deductions for your 401(k) or stocks, continue to do what you've been doing."

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