

Mary Rowland Personal Finance Column—October 2009

What to Do With Your Money When There Are So Many Mixed Signals

We all know that 2008 was the worst year in recent memory for savers, investors, homeowners, borrowers and lenders. Whether you were saving and investing or borrowing and spending, everyone got burned. Educators, especially, suffered under state budget cuts and substantial layoffs. There are signs now that the worst may be over and I'd like to look with you at what we might expect between now and year-end.

October has certainly earned its reputation as the month for stock market disasters. In 1929, the Dow Jones Industrial Average plunged 12.8% on October 28 and another 11.7% the following day. On October 19, 1987, the market lost nearly 25% of its value in a few hours. In October, 2008, 20 of the 23 trading days showed changes of more than 100 points in the Dow. On October 15 of last year, the Dow lost a whopping 733 points. Despite this grim history, there are some glimmers of hope this year, including the Dow breaking 10,000 for the first time in more than a year on October 14.

To me, one of the most interesting aspects about the financial scene as we head toward the end of 2009 is that no one seems to agree where we're going. Take gold, for example, which hit a record high for 3 consecutive days on October 6, 7 and 8. Should we buy it? One story on Oct. 8 predicted that gold could nearly double to \$2,000 an ounce.

(<http://www.cnbc.com/id/33204585>) Another on the same day warned: "Beware the gold bubble."

(http://money.cnn.com/2009/10/06/pf/gold_investing_bubble.fortune/index.htm?postversion=2009100612)

Given the mixed economic signals, it's difficult to know what, if anything, you should be doing. Let's look at this depending on where you are in your career:

IF YOU'RE JUST STARTING OUT in your career, first be thankful to have a job. (The incomes of young professionals are in an 8-year nosedive, according to an October report in USA Today.)

Although money's tight, try to save as much as possible in whatever tax-advantaged plan is available to you, such a 403(b) plan or a 401(k). Because you're putting money away for the long term, invest a good chunk of it in stock mutual funds or in newer alternative, exchange-traded funds (ETF).

Like the open-end mutual funds you may be familiar with, an ETF is comprised of a basket of securities sliced up into individual shares. Unlike mutual funds, however, ETFs trade on a stock exchange so they can be bought and sold all day on any business day. Mutual funds can be bought and sold only after the market closes for the day, which limits your flexibility. Although ETFs generally carry very low fees, you must pay a commission when you buy them.

Most ETFs follow a market index, with a huge variety available. You can buy gold bullion, for example, or Treasury Inflation Protected Securities (TIPS), or invest in stocks in emerging markets like Russia, India and Thailand. Never buy something you don't feel comfortable with. The ETF called SPY invests in the Standard & Poor's 500-Stock Index, a broad measure of the

US market. That might be a starting point. For more information on ETFs, see <http://www.morningstar.com/Cover/ETFs.aspx>

IF YOU ARE AT MIDLIFE, you no doubt feel especially squeezed by your regular responsibilities for parents and children and your own retirement, now complicated by a soft economy. Perhaps you've endured a bout of unemployment in your family. Surely you've suffered investing losses.

I hear from readers who pulled out of the stock market early in 2009 because they could no longer tolerate the pain. Then they watched the market gain nearly 60% from March to October. I tell them they must resist the urge to dump everything into the market in an effort to catch up. Following emotions is the biggest mistake investors make.

Vanguard Group, an established mutual fund company, actually warned its investors this month to be cautious—a rare and refreshing statement from a seller of investments.

What to do, then? You might consider changing the new contributions to your retirement plan rather than selling off the investments you already have in the plan. That way, you will be buying in gradually and spreading the costs of your investments over time. If the portion you had in stocks declined over the past year, adding new money to stocks should be a consideration.

IF YOU ARE RETIRED or nearing retirement, the past year has probably been more harrowing for you than any other age group. Surveys show that the majority of Americans in this age group are rethinking retirement in the wake of the market debacle.

Investors in target-date mutual funds—those funds that target the year of your retirement and aim to provide enough money for you at that date—have faced bitter disappointment. Investors in the 2010 funds—those who plan to retire next year—lost 30% of their nest eggs. One glimmer of good news here is that the returns on target-date funds have improved. So much attention has been focused on their failings in 2008 that sponsors of these funds are working hard to improve the mix of assets as well as the "glide path," which is the method used to alter the asset allocation as the fund moves closer to maturity.

The biggest threat for those who are retired or nearing retirement is panic. The market has grown so volatile this year partly because investors are spooked by the roller coaster ride they've been forced to take. Use all your discipline to hang on to your seat and prevent yourself from making hasty decisions. If you are investing new money, you might want to consider an inflation-protected investment like the TIPS bonds mentioned above.

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