

# Bad news shouldn't put brakes on investment plans

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Fears about the current investment market may be exerting a stronger effect than the market forces themselves, said local financial planner Dorothy Lewis. Declines in the national housing market have investors spooked in a way that is unjustified, given market dynamics and current market realities. As retirees scan their portfolios, it is important for them to take stock of current market realities, as well as the local and personal financial realities once the market shakes off the current dip.

According to a recent update sent to Lewis' clients, "third quarter was a wild one for the stock market. After hitting new highs in July, the sub prime mortgage crisis and resulting credit crunch occurred. Gold rose to a 27 year high and oil traded over \$80 a barrel. Housing continues to slow, the dollar is weak against every major currency, yet equities have done well this year. The Federal Reserve cut the discount rate from 5.25 percent to 4.75 percent."

That sounds like a nightmare for most investors. But Lewis, with 27 years in the investment world, suggests that bad headlines don't necessarily mean bad business.

She harkens to October 19, 1987, for example, in a note to her clients, recalling the dark day that the Dow Jones dropped more than 500 points in a single day – a plunge of nearly 23 percent.

Lewis, who was at a conference at the time, spent the rest of that day counseling clients about what to do. Her advice? Stay the course.

"I tell people, just stay the course, and don't get caught up in the minute-by-minute and second-by-second rhetoric," said Lewis. "After 9/11, we went down a thousand points, but we still did a lot of investing. It's like Warren Buffett says, 'Buy your straw hats in the winter.' But people's emotions get in the way."

Lewis designates greed and fear as the emotions that dictate most investment deci-



Local financial advisor Dorothy Lewis says investors shouldn't panic about their holdings.

sions. Investing based on those emotions, driven by headlines, is a great way to get into trouble, or miss out on opportunities.

"When I think about my 27 year career in the financial services field, I know it does not pay to make investment plans based upon the economic headlines. There always seems to be some negative financial news on a regular basis," she said. "What I have noticed recently is a longer pattern of equity market cycles: up for 5 years from 1995-1999; down for 2 years from 2000-2002 and up for at least 4 3/5 years from 2003 until now.

"A client asked (investment partner) Gini and me recently how often we looked at our statements during the 2000-2002 period. We both responded that we didn't even open the envelopes for many months in a row. As long you know you have a good investment allocation that fits you and good investment choices," Lewis said, "reviewing your accounts constantly brings emotions into the investment mix and that works against a well thought out investment plan."

As always, a good investment plan consists of a well-balanced, diverse portfolio that takes current market realities into account. For those who can't help but succumb to fear, Lewis suggests safe bets such as mutual funds and a good Roth IRA.

Financial advisory firm RSM McGladrey emphasizes that retirees need to be strategic about their portfolio mix – emphasizing longevity – which is the product of a carefully calculated distribution program, considering future market behavior and overall allocation of assets. That means double checking a portfolio during downtimes, and optimizing or adjusting accordingly.

McGladrey analysts know a number of studies show that a disciplined and diversified portfolio will provide some measure risk management when markets get shaky. That means asset allocation and distribution are some of the most important things to pay mind to during market downturns – or, even better, before the market takes a dive. When the market performs well, planned distribu-

## Plan withdrawals carefully

Traditional withdrawal planning starts with identifying an annual withdrawal rate, typically 4 percent or 5 percent, adjusting for inflation. Although simple, this guideline generally works well, particularly when the overall market is healthy.

But some studies suggest this traditional method is a bit out of sync with lifestyles of today's retirees.

Many retirees would prefer to spend more in early retirement years – on activities such as travel and recreation – while studies show typical income needs will decline in later years. This potentially allows investors to take more than 4 percent from portfolios early on, if they scale back as they become less active.

Retirees who opt for this life-cycle approach must be flexible, however. Taking an 8 or 9 percent disbursement may be possible in years when returns are good. But it may be necessary to defer significant disbursements, which could mean rescheduling major expenditures and purchases, during periods when the market takes a dive.

Expanding on a basic financial planning concept provides an alternative to taking withdrawals, regardless of which approach you use.

Rather than keeping three- to six-months worth of cash or cash equivalents on hand, keep two years worth. Structure portfolios to provide the income needed from the portfolio. But, if markets take a bad turn, reinvest portfolio proceeds and use the two-year cash cushion.

Source: RSM McGladrey

tions generally don't present a problem. But when investments lose value because of market troubles, taking money out of mutual funds already hurting from a recession or a simple drop in value can have a compounding effect. Regular withdrawals coupled with declining values can take a big bite out of a retiree's nest egg.

"It's important to remember that every market has its day in the sun," said Lewis. "But not all of them do it at the same time." **BE**