

BUSINESS

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Ride out market volatility with diverse portfolio, they advise

By KATHLEEN GALLAGHER
kgallagher@journalsentinel.com

F. Michael Arnow recommends that investors handle market turbulence with three brown paper bags.

Hide investment statements in one. Pack a lunch in another to save money. And breathe heavily into the third when the market has a particularly bad stretch.

Arnow, director of financial planning in the Milwaukee office of SJA Financial Advisory, and others said the best way for investors to handle the volatility was to have a well-diversified portfolio and to not panic.

Michael J. Francis, president and senior investment consultant with Francis Investment Counsel LLC of Pewaukee, said, "A 10 percent decline - even if it comes in a day - is not outside the boundaries of what should be built into someone's plan or strategy."

He said, "We advise most 401(k) participants that they continue to invest regardless of whether times look good or bad."

The most-asked question in the last few weeks from the 50,000

401(k) plan participants who call Francis' toll-free number is whether they should get out of the market, Francis said.

He said his firm was suggesting "with much gusto" that they hang on to what they've got and consider buying more.

Counsel stays same

"The market is somewhere between fairly valued and cheap, which mostly tells us there isn't a significant downside, and there appears to be potential for meaningful upside," Francis said.

Neither he nor Arnow would change his advice to clients because of the Federal Reserve's rate cut Tuesday.

Arnow said he generally advised people to pay down debt that's not tax-deductible and has an interest rate of 8.5% or higher because that's more than the long-range return they could hope to get out of a well-diversified portfolio.

Buying bonds

As for good diversification, Arnow said, he usually starts with a mix of 60% stocks and 40% bonds

for a portfolio, then tweaks that based on the person's time frame and objectives.

Francis said he recommended that everyone hold at least 10% of his or her portfolio in bonds. "On days like Tuesday, when everything else is dropping, bonds are going up; they represent a risk control in any long-term portfolio," he said.

Arnow said that for those who still couldn't stand it and were eager to sell all their U.S. stocks, he offered perspective.

"During the last seven years, we've had recession, 9-11, Rita, Katrina, two wars, the mutual fund scandal, the meltdown in subprime, Enron, WorldCom and Martha Stewart," he said.

Sure, it's scary to hear about the possibility of a recession, a meltdown in global markets, concerns about inflation and high oil prices, Arnow said.

"But this is not an asteroid coming to Earth; this is something the world recovers from," he said.