

# BUSINESS

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Stick to your plan in a volatile market

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### 401(k) ADVISER

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Fourth quarter 401(k) statements will be arriving soon like a lump of coal in everyone's stocking.

Falling home prices have kept investors nervous since the fourth quarter of 2007. But when Lehman Brothers filed for bankruptcy protection in September, things went from bad to worse.

What made this stock market drop so painful is that, this time, there's been almost no safe place to put your money. Everything dropped simultaneously. Diversification, meant to lower portfolio volatility, was rendered completely ineffective by panic selling in all asset classes.

In terms of magnitude, it's the third-worst drop in stock market history (-51.9%), if we use Nov. 20 as the bottom. The other two drops that were bigger: Sept. 7, 1929, to June 1, 1932 (-86.2%), and March 6, 1937, to March 31, 1938 (-54.5%). This has driven many 401(k) portfolios down 30% to 40% for the year.

So what's a 401(k) investor to do?

**Don't let emotions dictate your investment decisions.** Fear is a powerful motivator, but bailing out of the market now is not the answer. Today, stocks and corporate bonds are 30% cheaper, on average, than they were six months ago. Foreign stocks and bonds are even more depressed. While prices may still go lower, it's hard to see how selling long-term

assets at some of the most depressed prices in the past 120 years will turn out to be a good idea.

**Don't try to time this market.** Sure, there's a chance that the market will drop more in 2009, but there's no way of knowing if that will happen or how far it might drop. What we do know is that historically, after a bear market bottom is reached, the bounce back is usually swift and significant. In fact, after 20 bear market bottoms that date back to 1903, the market rebounded an average of 46% over the next twelve months.

**Develop a plan.** 2008 will be, from this point on, the year financial planners use to illustrate the importance of having a proper saving and investing strategy for retirement. Those who started too late, saved too little or invested too aggressively as they neared retirement now face the reality of having to work longer or accept a lower standard of living.

**Stick to your plan.** Keep investing during lousy market periods, even if it feels unnatural. While your current asset-allocation strategy was probably no help avoiding a collapse in the value of your 401(k) account, that's not a good reason to abandon it now. It's impossible to know which fund category will bounce back first, so a diversified strategy is still your best approach to recover from this bear market.

**Rebalance your portfolio** back to your original target allocation between stock and bond funds. Say you had adopted an investment strategy that allocated 80% of your savings to a diversified portfolio

of stock funds, and 20% to bond and stable value funds. Because of the beating stock funds have taken this year, your portfolio is probably now closer to 60% stock funds and 40% bond and stable value funds.

Because I believe we're close to the bottom, consider selling some of your bond and stable value funds now and purchasing more shares of stock funds to reallocate your holdings back toward your original target allocation of 80/20. Rebalancing gradually over the next six months will lessen the importance of the timing.

How you respond to this sharp drop in the markets could have a profound effect on how financially secure you are in retirement. History suggests that we are now looking at one of the most opportune times to invest that we've seen in a long time.

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