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On the money

Balance, patience help weather market storms

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The stock market took it easy on investors Thursday, and their nerves needed it.

"Some of them are panicking," said Francine Duke, a Vernon Hills financial planner. "They are seeing the stock market drop, their home equity drop and mortgages going up, and they are feeling very trapped and frightened."

She, like most financial planners, doesn't like investors to flee from stock mutual funds during downturns because she has clients invest in a blend of stock and bond funds aimed at surviving downturns and prospering during good times.

So as the stock market fell about 5 percent last week she asked clients to hold on and wait for a better day to sell. When people hesitate, she says, they often recover their nerve. And by selling when the market is climbing, rather than plunging, they won't lose as much money.

Still, hesitating has been tough on people because they understand the housing mess that's been weighing down the stock market lately, says Duke. They have friends that got into mortgages they didn't understand, and are now stuck. With home prices down, they can't sell homes -- even when mortgages adjust higher and become too costly.

Duke and other financial planners say the most nervous clients during this downturn have been the same people who were begging to take more risks when the Dow was reaching record highs earlier in July.

About three weeks ago Mt. Prospect financial planner Bob Mecca said a client about 10 years from retiring called and insisted "we need to make up for lost time." The man expected 20 percent returns even though Mecca explained that any investment that would earn that much would be extremely risky, and crash hard in a market downturn.

"The man is now watching the news and thinks the sky is falling," said Mecca.

The sudden turn of stock market conditions in July illustrates why financial planners like to set up mixtures of stock and bond funds and stick with them -- even in spooky markets.

They say both good and bad times sneak up without warning, so a proper blend of stock and bond funds positions people to partake in market upturns when they arrive.

Some planners will tweak a little in response to unsettling market conditions, however. For example, Mecca's clients have had 5 percent of their money in a Ginnie Mae bond fund that invests in mortgage-related bonds. The fund lost 1.5 percent last month as investors became nervous about the mortgage market. Mecca thinks the nervousness may last awhile, so he is moving money out of the fund and into a money market fund, a safe investment currently paying about 5 percent.

Meanwhile, many financial planners just stick to the same mixture of funds all the time. Chicago financial planner Chris Long said that for middle-age people saving for retirement he would suggest dividing up money like this: 40 percent into a large cap fund that invests in large companies, 7.5 percent into a small cap fund that invests in small companies, 7.5 percent into a mid cap growth fund that invests in medium size companies, 5 percent in a REIT fund that invests in commercial real estate, 20 percent in a diversified bond fund and 20 percent in an international stock fund.

For each group, he selects Vanguard index funds -- simple funds that charge very low fees.

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