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Cutting Spending May Be the Path to Success in a Bear Market

By Alexis Leondis

July 30 (Bloomberg) -- Fighting through a bear market is as much about monitoring personal spending as making wise investment decisions.

``It may seem rudimentary to talk about budgets, but a family that has had a steady income of six or seven figures in the past really has to understand where their dollars are going during these times of turmoil,'' said Barry Glassman, senior vice president of McLean, Virginia-based **Cassaday & Co.**, which helps manage more than $1 billion for clients.

People can reduce their costs by as much as 30 percent, regardless of their income, by evaluating their spending habits, said financial planner Frank Boucher in Reston, Virginia.

U.S. growth will slow in the second half of 2008 as unemployment rises and stock-market declines erode household wealth, according to an index of leading economic indicators.

``You have no control over oil prices or Fannie Mae, but you can still control your own spending,'' said Beth Gamel, executive vice president of **Pillar Financial Advisors** in Waltham, Massachusetts.

Gamel suggested dining at home, getting a local utility company to conduct an energy audit, and limiting car usage by doing errands at once, while Boucher recommended taking vacations during ``shoulder seasons'' when rates are cheaper.

Investors also should pay attention to the costs tied to mutual funds that they hold, especially so-called 12b-1 fees, said Jeff Seymour, a certified financial planner and managing director of **Triangle Wealth Management LLC** in Cary, North Carolina.

Beware of Fees

Some mutual funds charge 12b-1 fees, which may be used to cover promotional costs or to pay brokers. These fees range from 0.25 percent for Class A shares to 1 percent for Class B and Class C shares of funds, Seymour said.

Seymour expects financial markets to remain under pressure, while other advisers recommend clients sit tight after watching the Standard & Poor's 500 Index fall 14 percent this year.

``Don't panic,'' said Debra Brede, a wealth manager in Needham, Massachusetts. ``**John Templeton** would be having a field day right now

with all of the buying opportunities out there,'' she said, referring to the late investing pioneer.

Bear market funds, which allow investors to make money when stock prices decline, should be considered, said Kipley Lytel, a managing partner at **Montecito Capital Management** in Santa Barbara, California. The Rydex Inverse 2x S&P 500 ETF is an exchange-traded fund that tries to capitalize on the decline of the **S&P 500**. The fund has returned 27 percent this year.

Inflation Protection

To guard against inflation, Treasury Inflation-Protected Securities and floating-rate bond funds, whose interest rates constantly adjust, are ``good hedges,'' said Jay Hutchins, the Lebanon, New Hampshire-based president of **Comprehensive Planning Associates**.

As the name suggests, TIPS insulate investors' principal and interest from inflation. Floating-rate bond funds typically dole out more interest to investors when rates rise. On average, TIPS of varying maturities have returned 3.8 percent year to date.

Investors also can tap their fixed-income accounts for cash, said Paul LaViola, a fee-only financial planner in Philadelphia.

``Calculate how much cash you need for the next six to eight months and liquidate from the bond funds because they won't fluctuate as much as the equities,'' said LaViola, vice president of **RTD Financial Advisors Inc.**

Specifically, LaViola recommends dipping into international bonds, inflation index bonds and domestic bonds because all have performed relatively well this year. International bonds are up about 6 percent, inflation index bonds are up about 2 percent and domestic bonds are down about 1 percent, he said.

Keep Saving

``Despite the current market turmoil, the worst thing that people could do right now would be to stop saving for retirement altogether,'' said Francine Duke, a certified financial planner at **Aqua Financial Planning LLC** in Vernon Hills, Illinois.

By ending contributions to 401(k) plans, people will raise their taxable income, decrease future retirement savings and lose any matching contributions from their employers, Duke said.

The emotional reaction during a pull-back is to change portfolio allocations, yet this is unwise, said Hutchins of Comprehensive Planning.

``Take notes, so you can remind yourself how you feel about risk when the market gets good and frothy again,'' said Gamel, who advises clients with at least $5 million in liquid assets.

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