



THE EXPRESS-TIMES

Market experts: Please stay calm

Stock volatility no reason to panic, say financial planners.

Thursday, January 24, 2008

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The Express-Times

With the stock market behaving like a pinball machine -- witness Wednesday's morning sell-off followed by a furious afternoon rally -- it's easy to panic.

That's also the worst time to make investment decisions, according to local financial planners.

"We're specifically telling them not to panic," financial planner Robert Barry said Wednesday of conversations with clients. The market later rebounded.

Emotionally driven decisions during times like this are fruitless, Barry said, because they feed on hysteria and distort long-term perspective.

"You don't need to be a rocket scientist to know when to get out of the market," said Barry, president of Barry Capital Management Inc. in Hackettstown. "Unfortunately, they don't exactly ring a bell to tell you when to get back in."

Christopher Jones of Keystone Financial Planning in Macungie agreed.

"This is the worst time to be shifting things around," Jones said. "If you're not well diversified now, you're in trouble."

Jones says "well diversified" means spreading one's investments across stocks, bonds and cash in a way that matches one's priorities and time horizon. That principle can apply to 401(k) retirement plans or ordinary investment portfolios.

Age dictates investment strategy

As a general rule, advisers encourage younger investors to invest heavily in stocks, which tend to generate superior returns long term but are more volatile in the short run.

Investors can adjust toward more conservative investments, like bonds or cash, as they age, Jones said.

Still, it's easy to get swayed by headlines reflecting the panicky mood generated by a slumping housing market, credit woes and recession fears. At the same time, a Federal Reserve interest-rate cut could spark a rally.

Wednesday's whirlwind typified the recent rollercoaster on Wall Street.

After falling 323 points, the Dow Jones industrials surged to gain nearly 300 points at market's close, a swing of more than 600 points. Year to date, the Dow is down 7.5 percent.

During the market slide early Wednesday, Jones urged investors to stay calm.

"The people making money five years from now are the people who are buying shares today," Jones said. "The very worst thing you can do is start selling stock."

Those satisfied with their portfolio strategy should stay the course, he added.

Market sell-offs trigger panic

But the argument for doing nothing assumes an investor has already established a well-diversified plan that can ride out down cycles.

If one has not, this is a good time for review, said Edward Bullock, a financial planner with Genworth Financial of Phillipsburg.

Bullock says individuals need to examine their own risk tolerance. He said that's especially true now because market sell-offs seem to trigger more panic than booms create euphoria.

"A downturn is more emotionally powerful than an upturn," Bullock said. "This is the time to talk."

When determining strategy, Barry eschewed "cookie-cutter" approaches to investment styles based on one's age.

"Everybody is different," he said.

For instance, Barry cautioned against encouraging younger investors to load up on stocks simply because they have more time.

If a person lacks an emergency reserve, typically defined as at least three months of living expenses, or plans to make a down payment on a house or car, that person should focus on saving cash regardless of age, Barry said.

At the other extreme, Jones said older citizens shouldn't rely exclusively on bonds simply because they are low risk. Older investors can still benefit from growth offered by stocks, he said.

Jones recommends no more than 70 percent of one's portfolios in bonds, the primary benefit of which is to reduce volatility.

In the big picture, Jones likened market down cycles to an illness. It's something hard to completely avoid but can be mitigated through wise action.

"We all hate to get the flu but there's not much you can do about it," Jones said. "You get it, you weather it, you get better. Life goes on."

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