

Flee, or stay the financial course?

By Marcie Geffner • Bankrate.com

If you're worried about the dramatic ups and downs in the U.S. stock market, you can still count on one thing for sure: You're not alone. Plenty of people have panicked and sold off their mutual funds, raided their bank accounts or taken other ill-considered steps they may well regret later on -- or at least that's the perspective of financial planners, who unanimously advise against hasty decisions and instead advocate calm.

"You can't make good decisions when you are emotional. You have to calm down," says Frank Boucher, principal of Boucher Financial Planning Services in Reston, Va. "Sit back, take a deep breath, relax and when you are ready to deal with it without emotion, you are ready."

There's no doubt that the stock market has been volatile. In fact, October was one of the wildest months on record: The Standard & Poor's 500 stock index, to take just one measure, suffered its largest one-month decline since the "Black Tuesday" stock market crash of 1987, but also posted its biggest one-week gain in the last 34 years.

Such extreme volatility naturally engenders a perception of greater uncertainty. But uncertainty itself isn't a new phenomenon; rather, it's a constant presence, albeit to a greater or lesser degree, in free market economies, observes Karen Keatley, owner of Keatley Wealth Management in Charlotte, N.C.

"We've always been dealing with uncertainty. It's just that now we are all aware of it," she says.

It's important to remember, Keatley adds, that the U.S. economy has suffered other extreme "bumps in the road" over the decades. Two examples are the bear market of 1973-74 and sky-high interest rates of 1981.

Time horizons dictate financial plans

If you're worried about your investments, financial planners say, you should first have a financial plan.

John Belluardo, president of Stewardship Financial Services in Tarrytown, N.Y., suggests this approach: Divide your money into three pots based on how soon you plan to spend it. Money you're planning to spend in the next five years should be considered "short term," money you'll want in the next five-to-10 years should be designated "medium term" and money you won't need for more than 10 years can be denoted "long term." Short-term money shouldn't be invested in the stock market; medium-term money might be put into a conservative mixture of stocks and bonds and only long-term funds can be invested more aggressively.

People who are close to retirement do need to take extra care of their savings in a climate of heightened uncertainty. Near-retirees should continue to fund their retirement accounts, but also should "start to build up a bankroll of relatively safe investments," Boucher says.

Once you have a financial plan, your next step should be to periodically reassess your time horizons and tolerance for risk -- which is really just another word for uncertainty -- and then reallocate your pots of money accordingly. If your risk tolerance isn't high enough to achieve your goals within your desired time frame, you might need to lower your expectations, rather than accept the possibility of larger losses, Boucher suggests.

"Uncertainty, and perhaps our diminished risk tolerance, will cause us to change our goals and maybe (realize that) those goals were riskier than they needed to be. Maybe we wanted to retire at 60, and now 65 looks better. Maybe we wanted to buy a retirement home in another state, and maybe now the house that we have looks pretty good. Those are the kinds of changes people are going to make," he says.

Deposit insurance protects savings

If you're worried about the security of your bank accounts, you should read up on the rules that govern federal deposit insurance and diversify your accounts, so you don't have too much money in any one financial institution, suggests Robert Bartley, president of Bartley Financial Advisors in Bedford, N.H.

Bartley says the FDIC has negotiated deals for other banks to take over the deposits of banks that have failed within one day, but there have been situations historically when bank accounts were tied up for several days. If you're concerned that you might not be able to access your cash on demand, you might also be willing to pay higher bank fees or earn less interest income in exchange for the peace of mind of having your money in more than one institution.

Make 'don't panic' your mantra

If you're worried about your entire financial situation, planners offer several good suggestions.

Suggestions for worried investors

- Take a step back and relax before you make any financial decisions.
- Recognize that you can't control what's happening in the stock market.
- Focus on taking care of your own day-to-day activities.
- Turn off the television.

As Keatley summarizes: "If you have a reasonable amount of job security and cash for a rainy day, and if you are living within your means, then you have to turn off the television and not let that whip you into an emotional state."

A "barrage of negative financial news" is especially bound "to prey on" people who are stuck at home because they've lost their job or suffered an illness, Bartley warns. Those cases are all the more reason to turn off the set.

While it may be difficult to completely ignore the headlines, this "ostrich effect -- or whatever you want to call it -- is not a bad strategy," Belluardo also says: If you have a financial plan in place, your assets are properly allocated and you're comfortable with the amount of risk you've taken on to achieve your goals, a "very good coping mechanism is not to pay attention" to the day-to-day gyrations in the financial markets.

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