

## Personal Finance

# What should you do about investments?

## Check asset allocation, diversify, try hedging

By John Waggoner  
USA TODAY

When the financial world is panicking, you probably will, too. The best advice, though, is this: When you're nervous, don't actually do anything with your investments — and, most especially, don't throw all your money into whatever investment is soaring at the moment.

**Analysis** You may read about people who never sweat when turmoil sweeps the financial world. Don't believe it. Consider Peter Bernstein, one of the most highly respected sages on Wall Street. He not only worked more than 50 years on the Street, he's arguably the leading financial historian in the country as well.

Is he worried? Absolutely. "I've never seen anything like it," the 89-year-old Bernstein says.

The toxic interactions between parts of the financial system — mortgages, housing, banking and Wall Street — as well as the sudden global impact of spiraling oil prices, are "unique in my experience," Bernstein says. "Forecasts are more difficult now because we have no guidelines."  
So what should you do?

### 1 Preserve your asset allocation

You should have at least rough targets of what portion of your money you want to keep in each of several asset classes: stocks, bonds, ultra-safe money market funds and so on. Check to see if the market's recent action has left you below or above your target for any one asset class, such as bonds. If so, rebalance your portfolio. That is, sell off

some of your asset classes that haven't suffered too much recently and shift that money into the investments that have suffered the most, until you restore your portfolio to its original asset allocation.

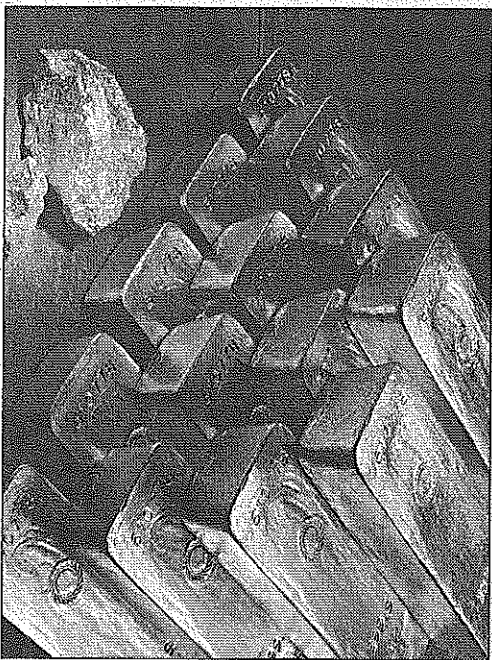
If you don't have an asset allocation plan, consider creating one. Start by matching your long-term goals with your long-term assets. If you're saving to retire in 20 years, you should have most of your assets in stocks, no matter how scary the market looks now. In 20 years, today's worries will likely seem as distant as the 1988 Super Bowl.

If you'll need your money in less than 20 years, add more bonds and money market securities to the mix. They don't have the potential to deliver the same powerful gains that stocks do, but bonds and cash serve a vital purpose: They'll cushion your losses in a downturn. Consider the Lipper large-company core index, which gauges the performance of large-company stock funds. It's fallen 15.3% this year. By contrast, general U.S. government bond funds have gained 1.8%. A 40% position in bonds would have reduced your losses to 7.9%.

If you'll need your money in five years or less, stay almost entirely with bank CDs, Treasury bills or money market funds. The Securities and Exchange Commission has a primer on basic allocation: [www.sec.gov/investor/pubs/assetallocation.htm](http://www.sec.gov/investor/pubs/assetallocation.htm).

### 2 Diversify

You need more than one type of stock fund and more than one kind of bond fund. "The past 10 years, the S&P 500 has gone nowhere," says Sam Stovall, chief strategist for Standard & Poor's. But in international stocks have gained 40%, and mid-cap and small-cap stocks are up more than 100%. Sto-



**Shiny insurance:** Investing in gold funds, rather than the actual bullion, would provide some protection against inflation.

vall notes,

Had you invested \$10,000 in the typical large-company core fund over the past decade, you'd have \$12,578 now, according to Lipper. But if you had put \$5,000 in large-company stocks, \$2,000 in midcaps, \$1,000 in small-caps and \$2,000 in international, you'd have nearly doubled your gains.

### 3 Consider 'insurance' investments

We don't mean insurance policies, which aren't investments. Rather, we're referring to small portions of your portfolio that will perform well in the worst of times and poorly in the best of times.

The first is gold, a hedge against inflation. People buy gold when the value of paper money declines.

This year, as inflation worries have heated up, gold funds have risen 7%.

Gold funds are volatile, and many invest in gold-mining stocks, not the bullion itself. (Those interested in gold bullion might consider SPDR Gold Shares, an exchange traded mutual fund whose shares are worth about a tenth of an ounce of gold.) Investing, say, a minimum of 5% of your portfolio in gold funds would lend you some protection against inflation. You should be prepared to add money to your fund when it falls and to sell it once it exceeds 10% of your portfolio.

Another inflation hedge is Treasury Inflation Protected Securities, or TIPS. Though the yields are tiny, the Treasury periodically adds to the principal value to reflect changes in consumer prices.

What if you fear a full-fledged, teeth-grinding economic depression? You'll want to invest heavily in Treasury notes. They carry virtually no credit risk — default is unthinkable — and they pay interest every six months. If consumer prices tumble, as they did in the Great Depression, each interest payment will buy more goods and services, and your bonds will soar in value.

But here's the biggest tip: No matter how worried you are, never invest all or most of your money in one asset class. With the future so uncertain, this is the time to diversify as broadly as possible. And that means you shouldn't sell all your stocks.

"Sometimes, things don't work out as badly as you expect, and that's when stocks soar," Bernstein says.



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