



# strategic MOVES

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Understanding the basic principles of investing for the long haul can help you plan for retirement, even under pressure.

**SIXTEEN MONTHS IS ALL IT TOOK** for the stock market to lose half its value, shaking many Americans' faith in their ability to afford a comfortable retirement. "It's no wonder that the average person's head is spinning," says Victoria Woods, author of *It's All About The \$Money, Honey!* (Dare2Dream, 2007). "People are scared, angry and confused about what they should do next."

Despite the market downturn, financial experts say the basics of good investing still apply: Have a solid financial plan, take a disciplined approach to saving regularly and for the long haul and don't wait to get started. Here are six strategies you can practice today to help assure solid footing in turbulent times.

# 1. CHOOSE YOUR MIX.

Asset allocation involves picking a mix of investment options that matches your goals, retirement timeline and comfort level. **Your aim is to reach for the return you need without taking on too much risk.** It may be tempting to want to make investment choices based on past higher performers, but before you make any investment direction choices, keep in mind that past performance has not been a good indicator of future results. It's difficult to predict which asset class will perform best in the next year.

Staying on course in volatile markets can be tough. Research shows that the longer an investor holds their investment position, the greater their returns may be.

One way you may manage this unpredictability is by periodically rebalancing the

portfolio—transferring retirement funds among investment options to return to your original allocation targets.

For example, sticking with too great a proportion of equities for too long can leave workers in a bind when they're ready to retire. If your retirement date rolls around during a downturn in the market, you may be forced to keep working or curtail your lifestyle in retirement. **A period like the past two years can show you whether you're invested beyond your comfort level.** If you sold investments—or were tempted to—you may be exceeding your risk tolerance. If that's the case, take the Investor Profile Quiz at [principal.com/planahead](http://principal.com/planahead) to help determine whether you should adjust your asset allocation.

# 2. START YOUNG—OR AT LEAST NOW.

Even if the present looks a little scary, it's still a good time to consider acting. The longer you wait to begin investing, the less time you have to plan for your retirement. Don't stress about devising the perfect plan before you start; you can always revise your investment direction later as your retirement strategy changes. **But you can't go back in time to make contributions at today's prices** or invest money you've already spent on something else.

Two people, each age 35, both earn a starting salary of

\$30,000 and hope to retire at age 65. One gets off to an early start and begins to contribute 6 percent of pay per year right away. The other doesn't start saving 6 percent until he's been employed for 10 years. By starting earlier, the first person's savings will be \$429,227 in 30 years; the person who waited 10 years will have accumulated only \$160,486.\*

\* This example is for illustrative purposes only and assumes a 25% federal tax rate. Individual taxpayer circumstances may vary. The assumed rate of return in this example is hypothetical and does not represent the return of any particular investment option. Assume \$30,000 in annual income, 30 years to retirement and an annual 8% rate of return.

# 3. PAY YOURSELF FIRST.

One of the more common saving tactics around? Automatic deferral. When you sign up for it, an amount you specify is directed straight from your pay into the retirement account every payday. "With the steep decline in the stock market, many investors question the wisdom of continuing to defer income each month into these accounts," says Bill Schultheis, author of *The New Coffeehouse Investor* (Portfolio, 2009). To quit deferring can be a big mistake. You run the risk of losing out on tax benefits and the potential to buy investments in a down market.

While other workers may spend most of what they make and try to save from what's left over, **those who opt for automatic deferral make saving their first priority.** You can start with a small percentage of your paycheck, then increase it a bit at regular intervals. If you up your deferral by as little as 1 percent—say, each time you get a raise—you're less likely to miss the money. Plus, you help eliminate the temptation to use those funds for something else or to get cold feet when you see the market falling. Go to [principal.com/planahead/savings](http://principal.com/planahead/savings) to bump up how much you're saving.

# 4. DIVERSIFY.

Asset allocation between stocks and bonds helps reduce risk by dividing your money among different types of investments. Diversification then spreads it even further within those investment classes. "Diversification and asset allocation go hand in hand," says Schultheis.

Here's how it works: Instead of choosing just one type of stock investment option, for example, you might want to divide the money you're allocating toward stocks among a large-cap option, a small-cap option and an international option. Then **when the economy begins to turn around and one of these**

**sectors takes off, you'll be better positioned to benefit.** Since no one can predict when a given sector will soar, having a stake in several can help maximize your opportunities for growth. Similarly, you may want to consider directing the money you've allocated toward bonds to short-, intermediate- and long-term bond investment options. Go to [principal.com/planahead/diversify](http://principal.com/planahead/diversify)

No investment strategy, such as diversification or asset allocation, can guarantee a profit or protect against loss in periods of declining value.

# 5. BUY AND HOLD.

The guiding principle behind all these tactics is that over time you're positioned for the best long-term results. To succeed, you need to **make a plan and stay with it through the ups and downs**, especially when you're tempted to quit or even to raid your savings.

Jumping in and out of the market or moving your money around to chase a high-flying class of investments is called market timing. It's a bad idea because no one knows with certainty what the market is likely to do. In the end you could miss the gains that come from the market's best days and lose out on the buying opportunities at its lows.

"You might get it right once in a while," Schultheis says. "But over the life span of your investing career, you are virtually doomed to fall short of what a diversified portfolio offers."

**As a strategy, buy and hold also applies when changing jobs.** Some 40 percent of workers cash out of the retirement plan when they leave a job, paying hefty taxes and penalties that take a big chunk out of their savings and wipe out the future gains they might earn. With the recent spurt in layoffs and forced early retirements, it's particularly important for those affected to try to leave their retirement savings untouched.

"I think one of the hardest parts to investing these days is having the gumption and guts to do it," says Christy Heady, author of *The Complete Idiot's Guide to Making Money on Wall Street* (Alpha, 2000). "Our investment climate has changed tremendously, but the basics of investing have remained constant."

# 6. INVEST REGULARLY.

Automatic deferral provides you with the benefits of dollar cost averaging over time. The technique is simple: You invest the same amount of money regularly regardless of what the market is doing. If you invest \$200 a month and an investment option is trading one month at \$20, you'll get 10 shares. But if it drops the next month to \$19.51, \$200 buys 10.25 shares. If it goes up to \$20.25, that same investment can net 9.9 shares.

**Do that over time and you'll buy more**

**shares when prices are low and fewer when they're high**, lowering your average cost per share. Then when you sell, you'll likely have more shares—and potentially more profits—than if you'd consistently bought 10 shares per month.

"It takes a large chunk of fear out of the equation," says Heady. "Dollar cost averaging has pretty much been considered a strategy to help take the sting out of times like these to be able to profit in the long run." ▶