

INTERNATIONAL BUSINESS TIMES

Stock drop heightens investors' money worries

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The panicked selloff in the stock market that sent the Dow Jones industrial average down as much as 800 points Monday before it recovered left investors' jangled nerves further on edge.

It also exacerbated worries about money that have grown as the credit crisis that exploded last month shows signs of worsening.

With the blue-chip indicator sinking below 10,000 for the first time in four years, many are wondering how much lower it could go and how vulnerable are their holdings in stocks, CDs and other investments as the credit crisis continues.

The Associated Press addresses some of the concerns with answers to common questions, based on interviews with experts.

Q: Where's the best place to keep money I may need in the short term?

A: Much like your overall portfolio, you might want to consider diversifying even your cash reserves. Right now, for example, rates on tax-free money-market mutual funds are better than certificates of deposits, or CDs. To mitigate any difference, consider splitting your money between the two.

To find the best rates for CDs and money-market deposit accounts, check Bankrate.com, which includes listings from online banks.

If you've got cash to invest for the long-term--at least 10 years or more--putting a little in the market in stages might not be a bad idea, said Lisa Kirchenbauer, a certified financial planner and president of Kirchenbauer Financial Management & Consulting in Arlington, Va.

Q: What's the difference between a money-market mutual fund and a money-market deposit account?

A: Both are generally safe ways to keep money readily available while drawing a modest amount of interest to offset inflation. While a money-market fund generally offers a greater yield than a money-market account, it also carries modestly higher risk.

Unlike other mutual funds that invest in stocks and bonds, money funds are limited to safer short-term debt. The safest typically invest in government debt such as Treasury bills, while funds offering slightly higher returns invest in the short-term corporate debt of firms with high credit ratings.

Fund managers are supposed to maintain a value of \$1 in the fund's underlying assets for each investor dollar put in. In the extremely rare case that a fund fails to maintain a dollar-for-dollar balance--as happened last month to a handful of money funds that "broke the buck"--investors could be exposed to losses of pennies on the dollar if the fund manager can't round up money from elsewhere to prop up the troubled fund.

A new temporary program offers federal guarantees to assets held in money funds as of Sept. 19, but doesn't apply to money put in funds since then. Money-market accounts offered at banks invest in short-term debt as well, but are FDIC-insured, and offer higher interest than savings accounts.

Q: What should investors who are within five years of retirement do when they see their portfolio's value declining so sharply?

A: "If your portfolio is way down, you don't want to start withdrawing from it when the market is in a trough, because you'll just be making things a lot worse," said Christine Fahlund, a senior financial planner and vice president with T. Rowe Price.

If you're near retirement, you may want to fight your instincts to retreat. "If you can afford it, consider increasing retirement contributions in the final years of your working life," Fahlund said. "You'll be taking advantage of the market conditions, and buying into the market when it's low."

Amid volatile markets, Fahlund said those close to retirement must become increasingly flexible about their plans, from deciding when to stop working, to how much money to set aside for retirement, and how much to spend. Soon-to-be retirees should avoid setting rigid plans if they don't have to, and make it clear to their employers that they're taking a wait-and-see attitude.

Q: How should investors whose college funds have taken a hit respond to the market?

A: The issue comes down to two factors: risk tolerance and time horizon, said Alan Gayle, director of asset allocation and senior investment strategist for Atlanta-based RidgeWorth Capital Management. "If the portfolio that they own is keeping them up at night, then that's a signal that they need to make some adjustments," he said, addressing the risk tolerance question.

The date for when the child is going to school plays a key role in the broader answer. Investors should reduce a college fund's exposure to the stock market at the student's enrollment date approaches. However, if the child isn't heading off to school soon, "this is a better time to buy stocks than to sell," Gayle said.

If the parents still have a reasonable amount of time, say three to five years, before they're going to need those funds, Gayle said the overall evidence suggests that equities are relatively cheap at the moment, noting the nearly 30 percent drop in the Dow Jones industrial average since its October high.

"Truthfully, usually the best time to buy stocks is when nobody wants them," Gayle said. "They're on sale."

Q: How will I know when the market's hit a bottom?

A: Not until after it has recovered off the lowest point. Not even the smartest experts can predict when the market will turn, even though someone's guess will ultimately be proven right.

After shedding 3.85 percent Monday, the Standard & Poor's 500 index is now down more than 32 percent from its peak of Oct. 9, 2007. By comparison, the S&P dropped 44.7 percent during the last bear market from August 2000 to September 2002. The market didn't fully recover until October 2006 according to Morningstar's Ibbotson Associates.

Economist Peter Morici, professor at the University of Maryland School of Business, says he doesn't foresee a turnaround this year but the economy's fundamentals remain sound.

The signs to watch for indicating a market bottom, he says, are when banks lend freely again and the housing market turns upward.

Q: How can investors who feel they don't have the stomach for all the ups and downs in the market prepare for what's ahead?

A: "It's more than likely that we're going to continue to see continued volatility," said Fahlund of T. Rowe Price. "But that's a good reason to emotionally adjust to it now."

"We know, for example, that we've got an election coming, and there are going to be market reactions of one sort or the other to that. There will be changes in Congress, and there's probably going to be increased regulation. The daily news is going to be especially interesting, and exciting over the next few years, and I think the way to take it--is to find it interesting, but stay calm about your investments, and put it into the context of all that's going around you."

The Associated Press personal finance team compiled this report.

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