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# Jittery Market Calls for a Steady Hand

By ERIC DASH

EVER since the credit crisis began last summer, the markets have been so choppy that even the most seasoned investors are complaining of motion sickness. The rest of us, looking to secure our retirement nest eggs and have enough left for our children and favorite causes, are nervous.

But how can we position ourselves to survive — and prosper from — these turbulent times?

The answer makes many money managers and financial advisers sound as if they were captains of the seven seas. Don't stray too far from the investment path you have charted. Make a few midcourse adjustments to your portfolio. Keep your eyes on the horizon in spite of the markets' wild swings.

"Our clients are prone to emotion-driven decisions: they get too excited during good times and too pessimistic during bad times," said Evan Roth, a financial adviser for BBR Partners, which caters to about 60 families with assets worth $20 million or more. "You just have to stay disciplined when you see panic on the street."

That, of course, is easier said than done — especially when the economy is teetering toward a recession. But here are five principles to remember.

### DO NOT TRY TO TIME THIS MARKET

Most people earn their fortunes by trusting their own instincts. But as investors, the same people may find that those instincts are often wrong. The problem is worse in volatile markets.

"For the average investor, timing markets is a disaster," said Jeremy J. Siegel, a finance professor at the Wharton School of the University of Pennsylvania.

Instead of focusing on an investment's fundamentals, investors let their feelings get in the way. Just ask your neighbor who bought technology stocks in March 2000

**STREET SMART** Evan Roth, a financial adviser for BBR Partners.

or a second home in southern Florida in late 2006.

"If you are making decisions to put money out because of how it worked in the past and are greedy, be careful," said Andrew P. Mehalko, chief investment officer of GenSpring Family Offices in New York. "If you are selling because you are fearful, be careful."

In fact, many advisers recommend doing the reverse: buy more of your losers and sell some of your winners. Investments that have performed poorly will typically do better; those that have done well will fall to their longer-term historical rates.

Pay attention to the news but don't become a day trader. Instead of seeking to invest at the exact top or bottom of a market, evaluate whether you are getting a reasonable return.

### TODAY'S HEADLINES CAN BE TOMORROW'S INVESTMENT

It is hard to read the financial pages these days without noticing the steady stream of brutal headlines. If the country falls into a recession, there will be more bad news in the weeks ahead. But it is also important to keep it all in perspective.

So far, the stock market has sunk about 13 percent from its high last August, leading many investment advisers to think there is more room for it to fall.

Still, there have been only two 50 percent drops since the Depression. And while there are those who can remember when stocks were cheaper relative to other classes of assets — like bonds, real estate and commodities — stocks are inexpensive.

"Investors looking long-term will be very well rewarded," Professor Siegel of Wharton said.

Many advisers say that yields on Treasury inflation-protected securities, known as TIPS, which are indexed to inflation, remain too low. The steep downturn in the economy and housing market has made both commercial and residential real estate less appealing.

But there may be opportunities ahead. Many advisers are becoming interested in high-yield bonds, where the drastic widening of spreads is painting an economic picture worse than many economists are projecting.

In the municipal market, there are investment-grade credits that yield more than their taxable counterparts, said Leo Grohowski, chief investment officer for BNY Mellon Wealth Management. "Much, if not all, of the bad news is getting priced in."

Jes Staley, head of asset management business for JPMorgan Chase.

And it is probably prudent to have a portion of your portfolio in cash; Jes Staley, head of asset management business at JPMorgan Chase & Company, suggests as much as 15 percent of your investments.

"For all the turmoil that is going on in the credit markets and housing markets," at some point they are going to be a very good buy, he said, adding that it was appropriate "to have some cash at hand to take advantage of that opportunity."

### REBALANCE YOUR INVESTMENT PORTFOLIO

Many investors wait until the end of the year to do their financial housekeeping. That may be convenient. But in volatile markets, it may not suffice. After all, many of the moves now occurring in a month's time have normally taken a quarter or a full year.

"It's a mistake to have an alarm go off on the calendar to say it's time to rebalance," Mr. Roth said. "It's time to rebalance when your allocation strays too far from your long-term targets."

Consider this past January: on average, municipal bonds were up 2.5 percent while domestic stocks were down more than 6 percent. For an investor who owns a portfolio containing both, that translates into an 8 percent spread in just one month.

By doing nothing, people in this situation have essentially made their portfolios more conservative, advisers say. Just to get back to their long-term allocation plans means they should be buying more stocks.

It is probably not worth incurring the trading costs or taxes that would result from tweaking your portfolio if it fluctuates only a few percentage points. But taking action could make a big difference when there are big market swings.

### COMMUNICATE WITH YOUR FINANCIAL ADVISER

Financial advisers earn their keep in turbulent times. A good one should be able to walk clients through the holdings in their portfolios and explain the clients' investment strategies and how much they could lose. Then, at least once a week, the adviser should follow up by phone.

"We have to be communicating and articulating to our clients," said Mr. Staley of JPMorgan Chase. "The greatest worry is the unknown."

But clients have responsibilities, too. Not only should they scrutinize their portfolios, but they should also ask about the overall strategy: what economic conditions are going to affect my portfolio the most? How am I protected or exposed to a more severe real estate or dollar decline?

For those invested in nontraditional areas like hedge funds, selecting a fund manager is even more critical. And clients should also be sure to ask how their adviser is being paid.

Some financial advisory firms receive a portion of fees for steering their clients to certain money management funds. So if those funds underperform, there is less incentive for the firm to suggest that clients withdraw their money.

### HARVEST YOUR TAX LOSSES

High net worth investors have generally used up their tax exemptions. So for some investors, selling some securities at a loss to offset other investment gains might be sensible.

But they must be mindful when selling to avoid replacing those securities with identical investments.

The so-called wash sale provision of the tax code disallows losses from the sale of stock within 30 days of the sale if you acquire shares or options of the same or an identical security. That means that if those shares rebounded, an investor would have to wait 31 days before going back into the market — or forfeit any benefit.

There are complex ways to get around the rule. "Sell the stock, and at the same time sell a put option" on the stock as long as its exercise price is not way above the prevailing market price, said Robert Willens, who has his own tax advisory firm. That enables you to avoid officially acquiring shares, even if the option potentially requires you to do so at a later date.

"If you want to be continuously invested, this is a strategy that allows you to seemingly have your cake and eat it, too," Mr. Willens said.