

Living with volatility

Four investing dos and don'ts in turbulent times

The economic and financial news lately has been all over the map, generating eye-grabbing headlines. While it's tempting to sell your investments and hide your money under the mattress, what's tempting isn't always what's best for long-term investors. Instead, consider these dos and don'ts of dealing with volatility.

1. Do keep contributing to your IRA

Investing consistently is a strategy known as “dollar cost averaging.” It doesn't protect what you already have invested, and it won't guarantee positive returns, but it does let you take advantage of falling stock prices. How? The amount you regularly invest remains constant over time. So, the money you contribute each month buys more shares of a stock fund when the price is low (and fewer shares when the price is high).

2. Don't panic

In the face of a financial storm, the worst thing you can do is panic and start selling all your stocks and stock funds. Doing so will turn paper losses into real losses. Stocks have averaged 10.4% annual returns since 1926 – and historically, many periods after a crisis have been robust.¹

3. Do review your asset allocation strategy

Be sure your investment mix is appropriate for your age, the number of years you have until you retire, and your tolerance for risk (particularly relevant in dizzying times like these). Remember that your investment strategy is designed to weather fluctuating markets over the long term. While it's difficult to appreciate the bargain of sticking with stocks when prices are falling, you need stocks for growth before and after you retire. Building a nest egg that will provide you with a more financially secure retirement, and maintaining it throughout retirement, is the goal. So if you believe your strategy is right for your individual needs, stick with it. If you aren't sure, you should consult with an investment professional.



4. Don't try to time the market

When you try to time the market, you usually end up selling when prices are down and buying as they rise – a sure way to lose money. What's more, if you leave the market when it's in decline you may not reinvest in time to recoup those losses when the market rebounds. According to DALBAR, Inc., a financial services market research firm, the average investor guesses the time and duration of market downturns correctly less than 50% of the time.² Studies also show that missing the best days of a recovery can substantially reduce long-term gains. So keep in mind that even professionals don't know when the market is going to go up or down. ■■

1 Ibbotson Associates, a subsidiary of Morningstar, Inc., 2008. Stock returns represented by the S&P 500 Index, a market benchmark that tracks the share prices of 500 large U.S. corporations. Past performance does not guarantee future results.

2 “Quantitative Analysis of Investor Behavior 2008,” by DALBAR, Inc.

From two incomes to one

These tips can help you keep your budget and savings on track when one spouse stops working

What happens to a family with two bread winners when one decides to stay home or loses a job? If a family depends on two incomes, the transition to a single income – whether planned or unexpected – can be difficult.

Lower income, lower costs

Leaving a job can mean eliminating a few of the expenses that went with it. Dropping the costs of commuting, work clothes, and lunches out could add up to significant savings. On the home front, the stay-at-home spouse may take care of many things, from kids to housecleaning, freeing up money you used to spend on these services. And while the occasional night out is still a treat, you might substitute healthier and cheaper home cooked meals for those last-minute take-out meals and microwaveable dinners you relied upon when there was no time to shop or cook.



Keep on investing

If you're the sole wage earner and you need to compensate for reduced income, you may be tempted to lower or suspend your investing for retirement, or even to dip into savings you've already built. But don't forget that your IRA account is one of the keys to pursuing a comfortable retirement. Depleting your investments to meet temporary needs could threaten your future plans. With one income, it's even more crucial that you keep investing consistently and allow the power of compounding to help your money grow. Also, because the money you invest comes out of your pay before taxes are deducted, the longer you keep your money invested, the greater your tax savings.

Budget for emergencies

If possible, build and maintain a reserve of cash equal to three- to six-months' living expenses to meet any unexpected needs. This emergency fund can help reduce the temptation to draw from your savings. Of course, it's easier to build a reserve while you still have two incomes, so if you envision a period when one spouse may stop working, the time to put away that cash is now.



Rethinking your approach to finances may help you adjust to the new circumstances, temporary or permanent, without changing your life radically or endangering your retirement.

Plan for fun

Trimming your budget doesn't have to mean cutting out all the things you enjoy. But if you review your bank and credit card statements from the past several months, you may be surprised by the amount of impulse spending your family has indulged in. After paying bills and adding to your savings each month, you can decide how much your new income level will leave for recreation. Approach your new financial situation with discipline, and you'll find that you can meet your family's needs on a single income – while still squeezing in some fun. ■■

Save it or shred it?

Are your file cabinets overflowing with important-looking papers? Consider the following time frames when deciding which papers to keep and which to shred.

Immediately shred...

- Any credit card offer or unsolicited junk mail that includes your name and address.

Within a year, shred...

- Credit card bills and bank statements. You can shred them once your payment has cleared or you've balanced your checkbook.
- Non-tax-related bills, once you have confirmation that your payment was recorded.
- Paycheck stubs, after you've double-checked the income statement on your W-2 tax form.
- Purchase receipts, unless you need them for taxes or as proof-of-purchase for an insurance or warranty claim.

After seven years, shred...

- Tax returns and any documents you used to support your return. The IRS can audit your returns for up to six years after you file them.

Keep...

- Annual retirement plan statements.
- Brokerage statements showing the purchase of securities, until you've sold the securities. You'll need these to calculate your capital gains.
- Estate documents, including your will, existing insurance policies, and powers of attorney. ::



Pass it on

Although it's important to create a will, many people put it off for various reasons: We think we're too young, or that our belongings will automatically go to a spouse or children, or that we don't have enough assets to bother with. The facts are likely to be different. If you die without a will, your assets will be distributed by a probate court according to strict formulas established by state law, and possibly not according to your wishes. And probate can be a long and costly process for your family.

Chances are you've accumulated more assets than you realize. The combined value of your home, your car, your bank account, your investment portfolio, plus other valuables like jewelry or collectibles, could be sizable.

A will can help to ensure that these assets are distributed the way you want them to be. It's also a good idea to periodically review the beneficiaries you chose when you opened your workplace retirement account because they take precedence over those named in your will.

Be sure to update your beneficiary designations whenever you experience a major life change, such as marriage, divorce, or the birth of child. ::

Riding out the market ups and downs

While the bear market of the past 12 months may be unsettling to you and your portfolio, it's important to remember that it's not the first time the market has experienced a large downturn, and if history does repeat itself, the market should recover but there are no guarantees. Just as investors have experienced bear markets in the past, so too, have they been rewarded – sometimes handsomely – when the market recovered.

Past performance is never a guarantee of future results but it can be helpful to look at the history of bear markets and their subsequent recoveries. Over the past 35 years, the S&P 500 Index has entered a bear market six times (a bear market is generally defined as one in which securities or commodities decline in value 20% or more during any given market cycle). Interestingly, each bear market was also followed by a double-digit percentage increase one year later.¹

Of course, it cannot be assumed that a bear market will reverse itself or that we'll experience double-digit gains by this time next year. And in the saturated "information age" we live in today, with the market's every move available in real time everywhere we go, it can be difficult for any investor to keep perspective in a down market. What you can do in this time of market unrest is go back to the time-tested principles of investing: remain patient through the market's roller coaster tendencies; maintain a long-term perspective and personal investment strategy that you are comfortable with; and ensure that your assets are allocated to investments that are appropriate for your age, risk tolerance and intended withdrawal time period.

At the end of the day, keeping in mind both the lessons of the past and the importance of a well-balanced portfolio may help you stay on track during these turbulent times.

¹ Post-bear market return data source: Standard & Poor's Monthly Return Series/ Morning Star Datalab, 9/30/08. ::

Investors should carefully consider the investment objectives, risks, charges, and expenses of a fund before investing. For a prospectus containing these and other details about any fund, please call 1-866-727-7277. Read this information carefully before making any investment decisions.

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Make it personal

The Mercer Wealth Solutions website offers you a number of calculators to help you apply some of the concepts covered in this issue to your own personal situation. Calculators with the  icon relate specifically to topics covered in this issue.

If you're still accumulating money for retirement:

- How much can I contribute to an IRA? 
- Should I convert my traditional IRA to a Roth IRA?
- What may my retirement plans be worth at retirement? 
- How much am I spending? 

If you're nearing, or in, retirement:

- How will retirement impact my living expenses?
- How should I calculate my 72(t) distribution?
- How long may my savings last after I retire?

To access the calculators, visit www.mercerwealthsolutions.com/education-center/calculators.shtml. ::