RESUSCITATE YOUR INVESTMENTS

IS IT POSSIBLE TO BREATHE LIFE BACK INTO YOUR PORTFOLIO? HERE ARE SOME THINGS TO CONSIDER

BY LEE BROOKMAN

PHOTOGRAPH BY JIM ARBOGAST/PHOTO LIBRARY

FEELING SHELL-SHOCKED after seeing 30 percent or more of your retirement savings vanish in less than a year? A down market is actually the best time to examine your investments closely and make adjustments.

"Particularly if your portfolio has declined more than broad market indices, make sure you are well-diversified," says John M. Gannon, senior vice president of the Financial Industry Regulatory Authority and president of the FINRA Investor Education Foundation. "Spread your risk by spreading your investments both among different asset classes — meaning stocks, bonds and cash — and within each asset class."

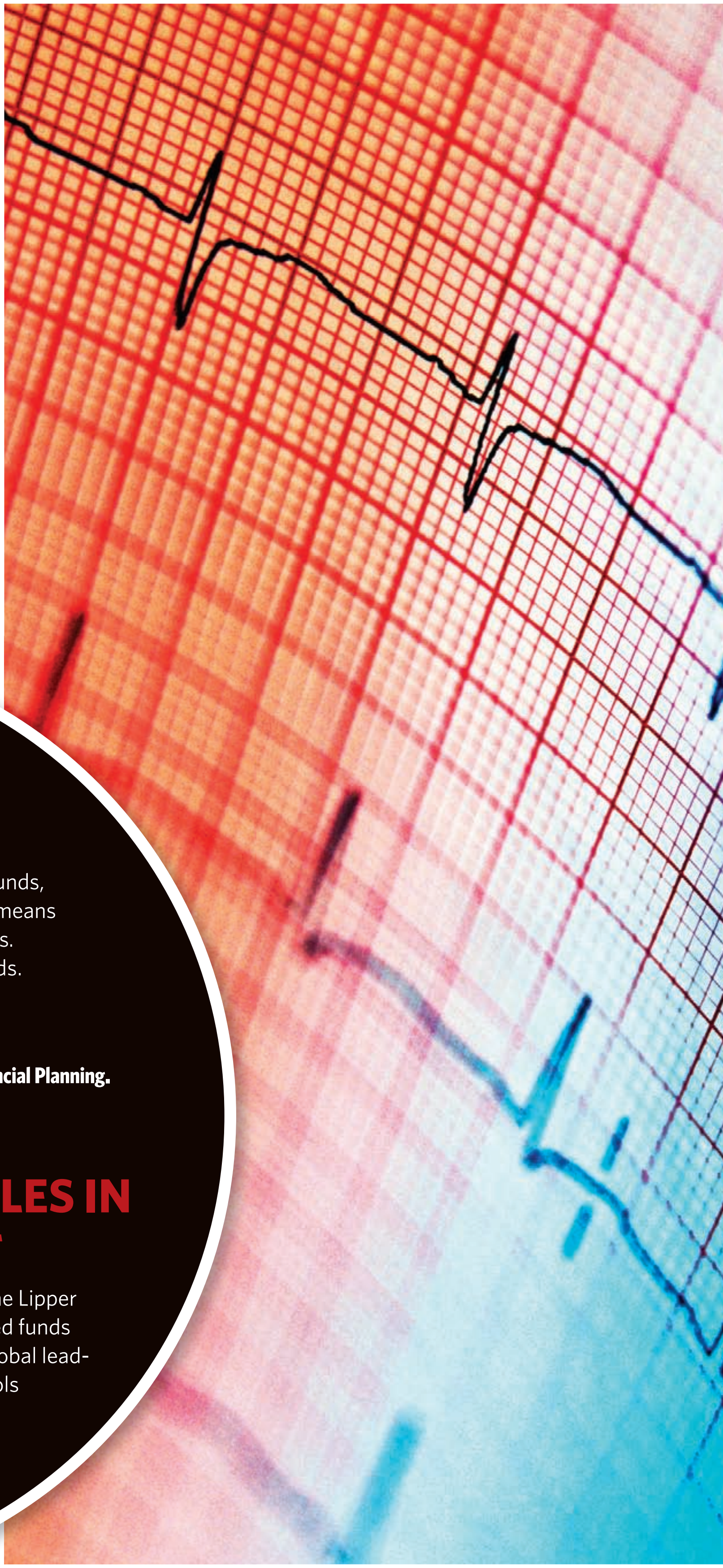
Sounds complex. But here's the lowdown on how to adjust your assets.

DON'T PULL THE PLUG

After any stock market dip, panicked investors often sell off their holdings for fear of losing any more. It's a classic mistake. Even after a big downturn, the drop in your account balance exists only on paper. But once you take those assets out of play, your losses become real. And you rob your portfolio of the opportunity to regain its value.

"When you're watching your retirement nest egg or your child's college fund evaporate, it's a gut instinct to pull the plug on your investment plan," says Laurel Bragg, a Chartered Retirement Specialist™ with USAA. "But if you still have many years until you'll need that money, it's better to stay the course."

True, there's no guarantee that any single investment will recuperate completely. But if history has taught us anything, it's that the stock market in general has risen steadily over many years. The S&P 500



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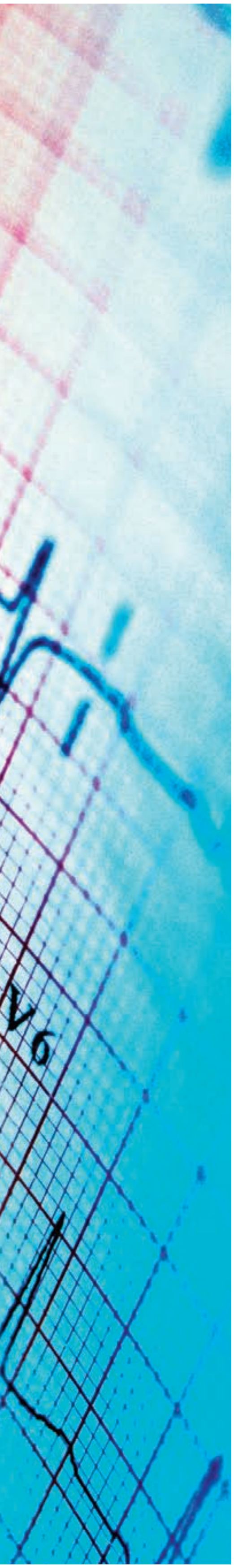
USAA MUTUAL FUND SPARKLES IN INDUSTRY SPOTLIGHT

The USAA Precious Metals and Minerals Fund has earned the Lipper Fund Award once again, ranking No. 1 out of 28 gold-oriented funds for the 10-year period that ended Dec. 31, 2008. Lipper is a global leader in supplying mutual fund information, analytical tools and commentary.

Lipper Inc. ranked the fund 3 out of 52, and 1 out of 48 Gold-oriented funds for the 3- and 5-year periods, respectively.



PHOTOGRAPH BY STEVE ALLEN/BRAND X/CORBIS

posted average returns in the neighborhood of 10 percent over the last eight decades, including the crash of 1929 preceding the Great Depression. So while the last year might have shaken your confidence, odds are still good that a well-structured investment portfolio may increase in value given five years or more. The key phrase is “well-structured portfolio,” and reallocation is how you keep yours that way. But remember, past performance is no guarantee of future results.

STICK TO THE PLAN

When you built your investment portfolio, you likely chose a mix of assets — stocks, bonds and cash — to account for risk tolerance and how long you had until retirement. A 35-year-old might have selected an allocation of 80 percent stocks and 20 percent bonds. To keep that 80/20 mix, both stocks and bonds would have to perform exactly the same over time. That rarely happens.

Last year’s roller coaster no doubt knocked your portfolio off-kilter. As stock prices dropped rapidly, so did the percentage of money in your portfolio dedicated to stocks. Over time, bonds performed better, which increased the percentage of funds you had invested in bonds. Now, that 35-year-old’s asset allocation may be closer to a 60/40 mix, far from the original plan.

So what’s wrong with straying from the original mix? Well, after taking a major hit you want every opportunity to ride the tide back up. If too much of your portfolio now sits in lower-risk bonds, you might not be positioned to benefit fully when stock prices surge upward.

“Take the time to make a long-term financial plan — and stick with it,” Gannon says. “Many investors feel pinched these days — and may be more willing to take risky measures to make ends meet. But it’s important not to panic. Staying diversified, understanding risk and reducing debt are the best ways to manage your finances during uncertain times.”

HAVE FREQUENT CHECKUPS

When you realize your investment mix is out of whack, it’s time to reallocate. By redistributing funds back to your original percentages, your portfolio stays in lockstep with your long-term strategy and risk profile.

And reallocation isn’t too complicated. To increase the stock percentage, you could sell off some of the bonds and reinvest the money in stocks. Or simply make new investments in stocks.* If you’re investing in a structured plan like a 401(k), Thrift Savings Plan or 529 college savings plan, you might just move money from one fund to another — say, from a bond fund to a stock fund — until the percentages are correct.

Many savvy investors see big market declines as an opportunity to increase their percentage of stocks above their normal allocation. Their goal is to buy more shares “on sale” while stock prices are deflated, with the expectation of possibly making a hefty profit if the market rises. “You may be contributing the same amount from your paycheck each month, but you’re getting more shares for your money,” says Bragg. “So when the market rebounds, your gains could possibly add up that much faster.”

It’s a common rule of thumb to reallocate once a year, but in today’s topsy-turvy market, consider checking your levels more often. ■

IF TIME IS SHORT

Not everyone has the luxury of rebalancing and waiting for a potential market recovery. If you’re near retirement or sending kids to college, preserving your principal becomes a higher priority than growth.

“While investors in or nearing retirement should take less risk, they still need to be earning some return to ensure their money lasts as inflation rises,” says Laurel Bragg, a Chartered Retirement Specialist™ with USAA. She suggests Certificates of Deposit as one option, since they require only a short-term commitment, a predictable return and the safety of being FDIC-insured.

If college is calling, allocating a larger percentage of your child’s 529 to conservative investments, such as cash and bonds, can prevent further losses. Whatever you do, don’t sacrifice your retirement savings to pay for college. Your kids will thank you when they’re not supporting you in 20 years.

*Investors should carefully consider the possible fees and tax implications of buying and selling stocks and bonds.

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