

If You Can't Be Right, Don't Be Wrong

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Those over 50, or without a secure job, are especially vulnerable in this fragile market. What to do?

These are uncertain times. We don't know whether the market will deepen further, another unexpected financial debacle will occur, or even if we'll be facing an untoward personal event. God forbid another terrorist attack happens. Though some brokers, money managers, and financial specialists seem to have direction, the majority of investors are less sure. Many feel like a sheaf of wheat blowing in the wind, with a storm trying to uproot them.



This emotion is justified in our present environment, especially for those of us over 50 or people without a secure job future. If we slip further into recession, our sheaf is uprooted. If the stock market goes forward and the economy flourishes, we don't want to be left out. In other words, we could still feel pulled from our bearings. This is, in part, because studies show that we seek an orderly environment. Not feeling secure about what will happen in the future makes us feel uncomfortable.

In fact, our brains seek order so diligently that we try to search for patterns out of randomness. This means we can generate false patterns. This happens in the financial markets as well. When a financial guru seems confident about predicting a recession, is he really sure? When another professor of economics takes the same facts and determines we already had the recession and are pulling out of it, who are we to believe? Are these people constructing pseudo patterns?

That is the crux of the problem. Since experts can't decide, how do we? How do we know the probability that we will have a deeper recession or that the Dow Jones Industrial Average will go over 13,000 instead?

There is no secure answer. Future events can't be predicted with certainty. That means we have to act on information, not with the probability it will be correct, but with what impact any consequences will have to us.

If we are over 50, or don't have secure jobs, our readiness for a fall in the market must be assessed especially carefully. This means managing risk. If the worst scenario should happen, can you and your portfolio live with it? On the other hand, if the best scenario takes place, what would be the response of you and your portfolio? Risk management is a balancing act.

That is why most money managers suggest a diversified portfolio to manage risk. Most advisors suggest that you invest in all asset classes. It is only the proportion that is different, depending on an individual's risk profile.

Those who feel uncomfortable about their economic situation in a deeper recession should consider these steps:

- Reduce personal debt.
- Keep more cash on the sidelines than usual.
- Consider buying Treasury Inflation Protected Securities (TIPS) and dividend-paying stocks with little debt.
- Concentrate on a growth stock portfolio consisting of solid stocks with little debt.

What proportion of bonds or dividend paying stocks you choose compared to growth stocks is a decision to discuss with a financial advisor if unsure. In general, the older someone is, the more security that is recommended for one's portfolio.

Do the steps above prepare you for any upside in the market? Yes, but not as beneficially as a portfolio that is weighted toward stocks including those with more debt. Do you remember the broken record? "The more risk you take, the greater the gain on the upside." Remind yourself of the reverse side. "The less risk you take, the smaller the loss on the downside." As you reflect on it, your emotional response will guide you toward the most appropriate action for you.