

How to Weather the Economic Storm

Stay the course with a well-planned, diversified strategy, advises Matthew Keeling, CFP®, vice president of Keeling Financial Strategies, Mashpee.*

CAPE COD LIFE: Does this volatile economy demand a rethinking of investment strategy?

MATTHEW KEELING: Volatile markets remind investors that equities can be risky, so it's a good opportunity to reassess whether your strategies are appropriate. When markets go up, it's easy to say you can handle a portfolio that is 60 or 80% equities, but when the market drops, are you still comfortable with that risk level? Your price for the higher returns that stocks traditionally deliver long-term is being able to cope with short-term volatility.

CCL: How important, then, is needs-and-risk analysis?

MK: It's absolutely essential. Determining how long you will hold an asset and what you intend to use it for is vital. Money that you'll need in the next seven to ten years, say for retirement or a child's education, should not be invested in equities. Even bonds can carry uncertainty, if you need to sell them before they reach maturity.

CCL: In a lagging economy, are some categories of stocks safer bets?

MK: Rather than shift a portfolio to a particular type of equity, I advise clients to stay broadly diversified – from large to small cap stocks and in a variety of sectors, such as technology, utilities, pharmaceuticals, consumer staples, and so on. Investors often think they are diversified because they own five or 10 mutual funds, but often-

times many of those funds invest in the same segments. That can be harmful in bear markets. You got hurt in 2007 if your portfolio was overloaded in small cap stocks and real estate.

CCL: Aren't there bargains in sectors that have suffered steep declines, such as banking?

MK: Certainly there are sectors like that, but the problem is determining whether there is even more downside in troubled categories. I advise against any radical portfolio shifts to chase performance, whether it's jumping on categories of stocks that have done well, or gravitating to poorly performing categories that observers say are vastly undervalued. Regular rebalancing of portfolios to assure diversification takes the emotion out of the equation.

CCL: How should the international economy affect investment decisions?

MK: There are two different spheres to consider. You have the developed world dominated by large multinational companies, headquartered in the U.S. and abroad. Then there are emerging markets, such as Brazil, Russia, China and India, along with the small cap companies and real estate firms operating in these regions. The big change in the last ten years is that it has become a lot easier and less expensive for Americans to invest in these emerging markets. In general, I am advising clients to devote a larger share of their equity portfolios to these two international categories.

CCL: What are some other factors that people should consider during the current investment climate?

MK: During uncertain economic times, it's very attractive to have some investments that give you regular returns, whether in interest, dividends, or coupons. In equity markets, for example, you might look for preferred stocks or those with a history of paying regular high dividends. Some real estate partnerships also are set up to spin off regular income. Assured of an income stream from such investments, you are under less pressure to sell holdings during a down market. 🏠

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This interview was conducted by Massachusetts freelance writer Lawrence D. Maloney, a former editor with U.S. News & World Report.

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