



January 16, 2000

Getting Going

How to Prepare for A Major Fall

By Jonathan Clements

You've seen the trailer. But could you sit through the whole movie?

Stocks opened the year with a horrifying thud. But what looked like the start of a massive sell-off turned out to be nothing more than a minor market dip.

Next time, we may not get off so lightly. To prepare yourself, try this nine-point checklist:

1. **Run a lifeboat drill**

Calculate how much you would lose if stocks plunged 25%. Feeling a little queasy? Maybe it is time to cut back on stocks.

"If you're going to panic, you're a whole lot better off panicking now than later," says Harold Evensky, a financial planner in Coral Gables, Fla. "It's better to panic when the market is high than when it's low."

2. **Look at your whole nest egg**

Get in the habit of tracking your entire portfolio's value, rather than fretting about each individual investment. That way, you are less likely to get unnerved if one or two of your investments are pummeled by a market decline.

Terrace Odean, a finance professor at the University of California at Davis, also suggests keeping tabs on how much you paid for your stocks. "From a psychological point of view, if you're up a bunch, you may be able to weather a decline better if you focus on what you paid, rather than on what you could have sold for at the peak," he says.

3. **Install a safety valve**

When stocks are off sharply and the pundits are predicting more of the same, everybody gets a little rattled. To make sure you don't do anything too foolish, establish a policy of waiting one week before acting on a major investment decision. Alternatively,

discuss the decision with your spouse, a friend or your investment advisor.

4. **Acknowledge your ignorance**

Next time you have a hunch about the market's direction or you hear an expert's forecast that seems particularly convincing, write it down. And keep writing down these forecasts, so that you have a string of short-term market predictions.

Then check on your success. In all likelihood, you could have done just as well by flipping a coin. The lesson: Nobody really knows where the market is headed, so don't make hasty decisions when stocks are down, just because of your gut instinct of an expert's opinion.

5. **Keep a little cash**

At times of crisis, we all get the urge to act. So what are you going to do when the stocks are plunging? Instead of selling shares in a panic, you should be buying more. After all, at that point, stocks will be cheaper and hence more attractive.

To make sure you have the necessary buying power, consider keeping 3% to 5% of your portfolio in a money market fund. Commit to putting this cash into stocks if the market drops, say, 15% from its peak. You may even want to write down this and your other investment policies, so that you have something to refer back to at times of turmoil.

6. **Put your investing on autopilot**

Not sure you will have the courage to buy when stocks are off 15% to 20%? This could be a great time to set up an automatic investment plan, where money is yanked out of your bank account every month and plunked directly into some stock funds. That way, you will be forced invest in stocks every month, even if you are unnerved by a market decline.

7. Remember why you're investing

Got cash you won't need until you retire in 20 years? Most of that money should be in stocks, and you should be mentally prepared for some severe short-term losses. Got cash you will need soon, because the kids are heading off to college or you are about to buy a house? That money, by contrast, should be in short-term bonds or a money market fund.

"Make sure you've covered your cash-flow needs," Mr. Evensky says. "If you are using your investments to supplement your living expenses, you should have enough in conservative investments to cover the next two years. And if you've got a major expense coming up in the next five years, set aside than money now."

8. Spread your bets

Your portfolio may have become heavily tilted toward growth stocks, thanks to the big gains posted by these highflying companies. What to do? Consider bringing more balance to your portfolio, by

moving money into foreign markets and slower-growing but cheaper "value" stocks.

"There's more than one way to take some volatility out of your portfolio," Mr. Odean says. "One way is to move out of stocks. But the other way would be to move out of individual stocks, especially very volatile ones, and into diversified stock funds."

9. Lighten up

While you are checking on your stock market mix, also make sure you have a suitable combination of stocks and more conservative investments. After the dazzling gains of the past few years, you may find you have more in stocks than you planned. If so, move money into bonds and money market funds, and maybe even spend some of your stock market gains.

"With the market indexes close to record highs, this would be an excellent time to take some profits off the table," says **Harry Kasanow**, an investment adviser in Honolulu. "If you need anew roof, a newer car or if you haven't taken a really exotic vacation lately, this is the perfect time."

Market Sell-Offs

Major declines in the Dow Jones Industrial Average since 1987

Dates	Decline in DJIA	Trading days to recover from low
August 25 - October 19, 1987	-36%	468
January 2 - 30, 1990	-9.5	72
July 16 - October 11, 1999	-21	129
January 31 - April 4, 1994	-9.7	220
August 6 - October 27, 1997	-13	72
July 17 - August 31, 1998	-19	59
August 25 - October 15, 1999	-12	48

Source: WSJ Market Data Group
