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THE BUSINESS DAILY

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### Post-Crash Planners Keep the Faith in Stocks: Jane Bryant Quinn

Nov. 5, 2008 -- Ooops. [Alan Greenspan](#) has just discovered that, when the odor of money is floating on the air, you can't expect the \$\$\$\$\$ bonus crowd to "just say no." It was a flaw in his thinking, Greenspan concedes, in apparent shock.

So what about the financial planners who advise pre- and newly post-retirement clients to hold a substantial portfolio of stocks? Are there flaws in that theory of asset allocation?

I put that question on the [Web site](#) used by members of the National Association of Personal Financial Advisors. The resounding answer: NO. They've kept the faith in a financial portfolio that's 50 percent to 60 percent invested in stocks for people facing a retirement of 20 to 40 years.

Given the history of the markets, that appears to be the only way of staying ahead of inflation, says [Jay Hutchins](#), president of [Comprehensive Planning Associates](#) in Lebanon, New Hampshire. He sees your choice as either accepting investment risk or "disinvesting and virtually guaranteeing that you will run out of money if you live longer than 10 or 15 years."

Diversified portfolios fail you in a panic, says [Tom Orecchio](#) of Greenbaum & Orecchio in Old Tappan, New Jersey. Everything goes down at once. But while the strategy may not work day-by-day, it works over time, as different markets fall or rise at different rates of speed.

You have to be able to wait out the panics, by holding enough cash and safe, liquid savings to see you through. "Advisers are rethinking what is a safe amount," Orecchio says.

I suspect that investors are rethinking that, too.

Cash on Hand

In general, the planners who answered my questions said that retirees should have enough money on hand to pay their bills for the next five years. [Helen Modly](#) of Focus Wealth Management, Ltd., in Middleburg, Virginia, advises cash accounts for two years' worth of expenses plus enough bonds coming due in each of the next three years to pay those bills, too.

[Burt Hutchinson](#) of Fischer & Hutchinson Wealth Advisors LLC in Lewes, Delaware, favors insured certificates of deposit, insured bank money market accounts and short-term government bonds.

Five-year CDs are currently paying as much as 5 percent (5.21 percent at [Discoverbank.com](#), with a minimum deposit of \$2,500). They're attracting advisers who might have turned up their noses at banks just a few years ago.

[Tom Fisher](#) of Fisher Financial Strategies in Cambridge, Massachusetts, is rethinking his advice for people in their 50s. A couple of years ago, he would have advised adventurous investors to hold as much as 65 percent of their portfolios in stocks. Today, he thinks a smarter target might be 55 percent.

### Tapped Out

Investors without a sufficient cash reserve may be tapped out, especially if you're likely to lose your job. You can't afford the risk of losing any more than you have already. Cut some of your losses, Hutchinson says, and move the money to safer investments. That doesn't mean "sell everything," but sell enough to create the fixed-income allocation that you should have had all along.

Cut your spending, too. "You can't control the market, so control what you can," says [Charles Stanley](#) of the planning firm Trovena LLC, in La Jolla, California. [William Bengen](#), author of "Conserving Client Portfolios During Retirement," suggests that retirees reduce the amount they withdraw from their investment portfolios by 5 percent to 10 percent. If this turns out to be a long recession, "portfolio returns may be well below normal for several years," he says. Cutting back is an insurance policy against that possibility.

### No Havens

One thing investors have learned (or should have learned) from this panic is that there are no safe stocks. Just a few years ago, you wouldn't have thought twice about owning Freddie Mac, American International Group Inc., Lehman Brothers Holdings Inc., [General Electric Co.](#) and Wachovia Corp., Hutchinson says. Now you'd be cooked. "This is the reason for individual investors to be using mutual funds," he says.

Most of the planners are advising their clients to rebalance their portfolios, which effectively means putting money into stocks at current prices. They're buying slowly, dollar-averaging into the market month by month. For taxable accounts, they're also harvesting tax losses, to use against the capital gains that some mutual funds will be reporting, based on gains taken earlier this year. They also love municipal bonds.

Not all of the planners I heard from are of the asset-allocation persuasion. [Ted Feight](#) of Creative Financial Design in Lansing, Michigan, has most of his clients in cash and bonds. Given the [recession](#) warnings that were flashing in 2007, "for people to buy and hold in that situation is using caveman knowledge," he says.

### Self-Discovery

Bengen also is keeping his clients out of equities. Normally, he says, he believes in traditional asset allocation, but "this is one of those rare instances when duck-and-cover is appropriate."

As a code, the planners told me, "I'm not in favor of government regulation, but..." -- followed by a suggestion on what needs tightening up. It reminded me of my experience with feminism a couple of decades ago. Conservative women would tell me, "I'm not a feminist, but..." and go on to say they favored equal pay, equal access to promotions and equal rights. In short, they were feminists in all but name.

I see the same kind of thing in financial advisers who think of themselves as conservative free-market types. Like Greenspan, they're suddenly finding their inner FDR.

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