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Experts advise investors to hang tight, let financial storm pass

By Chris Fleisher
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Herb Barnett is trying to stay cool about the plummeting stock market.

He's seen jittery investors make mistakes before because of knee-jerk reactions to market gyrations and doesn't want to be one of them.

“Some people are a lot more concerned with short-term market fluctuations,” said Barnett, a retiree in Wexford. “A lot of times, you get too worked up with short-term fluctuations and you end up selling stocks at the wrong time, and that works against you.”

The plunge in stock prices amid global economic concerns is worrisome for some investors. The big question is what they should do with their money to ride out a storm that some experts believe could last many months.

Do nothing is what financial planners recommend for most people sweating about their retirement savings. The market's ups and downs will even out over the long haul, they say, and people building a retirement nest egg should not treat their investments like a day trader.

“Our advice, more than anything, is to stay the course,” said Beth Lynch, an investment adviser with Schneider Downs Wealth Management Advisors, a Downtown firm. Individual investors should have diversified portfolios. If there's no short-term need for cash, “let the market settle down,” Lynch said.

But not everybody can afford to be patient and wait for their investments to recover — especially people who are close to retirement and may want to protect their money. That is why a sustained decline in the stock market can force older investors into some difficult decisions, said Patrick Litzinger, a professor of economics at Robert Morris University.

“People in their retirement years typically don't plan for as many years for things to settle out in the market, partly because their time horizon is limited,” Litzinger said. “Someone who is thinking of retirement and moving into more stable investments, certainly they don't want to do it while prices are dropping precipitously.”

U.S. government bonds offer a safe place to park cash when the stock market takes a dive. Treasury securities are considered a safe-haven investment because the risk of default is low as they are backed by the full faith and credit of the government. Indeed, as the Dow tumbled into a correction Friday, meaning it was down more than 10 percent from its high, investors rushed money into Treasurys.

The slide in stock prices has been a long time coming, said Sung Won Sohn, professor of economics at California State University, and alumnus of the University of Pittsburgh. It has been several years since the last correction, and the market couldn't continue to rise forever. The question for investors is how long it will take to recover.

The events in Greece and China's weakening economy, falling oil prices and uncertainty about when the Federal Reserve will raise interest rates have caused some panic among investors. The Dow Jones industrial index fell more than 500 points Friday in a broad sell-off and has lost more than 1,000 points since the beginning of August. Oil traded below $40 for the first time since 2009.

“When it rains, it pours, and that's what we're seeing now,” said Sohn.

He said the issues causing the market volatility won't end soon.

“If you look at the problems, such as China, it is not a two-day problem or two-month problem. It is a long-term problem,” Sohn said.

For investors who want to wait out the storm and keep money in stocks, there are still some options. Companies that make consumer staples (goods people are unable or unwilling to cut such as food), drug manufacturers and utilities usually do well even in bad times, said Chris Wiles, an investment adviser and founder of Rockhaven Capital Management in Mt. Lebanon.

“Their revenue streams are a lot less sensitive to fluctuations, and their valuations are not high,” Wiles said. “What's getting crushed right now other than energy and commodities are a lot of the high-flying growth names” — Netflix, Apple, Priceline — “that are starting to come under pressure.”

The sell-off in stocks was exacerbated by concerns about the timing of a possible increase in interest rates by the Fed. The market is expecting it to act in September, but slowing growth in China — the world's second-biggest economy — is causing investors to worry about the impact on corporate profits and the American recovery.

Given concerns about global weakness and a potential recession, it seems a strange time for the Fed to consider an interest rate increase, Wiles said.

“You never know what kind of policy mistake someone might make,” he said.

Bond prices fall when interest rates increase. A September interest rate increase could prompt a sell-off from nervous investors worried that higher rates could erode the value of bonds, said **Bernie Baumohl, an economist at The Economic Outlook Group.**

But bonds are a good way to offset more volatile stock investments, said Robert Hapanowicz, president of Downtown-based Hapanowicz & Associates Financial Services. He said big bond investors such as pension funds and insurance companies aren't going to rush to sell because interest rates go up a quarter of a percentage point.

Pat Donnelly of Ross said most of the retired people he knows have moved into mutual funds, cash and bonds. Donnelly, 51, a technology consultant, is many years away from retirement and can afford to be patient. He said he focuses on individual companies with good fundamentals but that get “punished by the market for no reason.”

Those kind of companies will be able to weather the storm, he said. This slide isn't permanent.

“Even if there is a correction or downturn, it's not going to last forever,” he said.

Barnett said he has enough of a financial cushion to ride out the storm. “The long-term approach to investing — it goes down, it goes up,” he said. “I don't worry.”

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