

Investment chat with CFP Ted Yoos

February 28, 2007

On Tuesday, Feb. 27, 2007, the Dow Jones Industrial average fell 416 points after an overnight plunge in Asian global markets, making for the worst trading day since Sept. 11, 2001.

Ted_Yoos: Hello, my name is Ted Yoos and I am a fee-only Certified Financial Planner(tm) with Cornerstone Financial Management, LLC in Sudbury, Massachusetts. We are beginning the online chat for people that have questions about what to do with their investment portfolios after the stock market "correction" on Tuesday, Feb. 27, 2007, or other personal finance questions you may have. Let's begin!

TimothyB: All of my pension is in TIAA's most conservative investments, like bonds, etc.--this market plunge won't affect that will it?

Ted_Yoos: Hi Timothy. To give you a definitive answer to your question, I would need to know more specifically how your pension money was invested in the various TIAA-CREF investment choices. That said, if most of your pension is invested in bonds, or other conservative, low-volatility investment choices, then the losses in the stock market yesterday should have had a relatively small impact on you. In fact, yesterday investors bought bonds as they sought a safe haven from the sell off in the stock market. This pushed bond prices higher, increasing the value of investments in bonds.

chingching: Hi Ted. Any suggestions on where to look for bargains today in the stock market?

Ted_Yoos: I would look at the high quality, "blue chip" US companies that have operations around the world for potential bargains. These companies are for the most part, very well diversified across a variety of countries, are well run, and tend to perform better than smaller and riskier companies during times of stress in the stock market similar to what we experienced yesterday. And don't necessarily restrict yourself to just US companies. There are many foreign companies that fit this description as well!

gangrenousSloth: Hi Ted, should I take advantage of low prices and invest in the stock market right now?

Ted_Yoos: If you have a long-term investment horizon - at least five years and preferably 10 years or longer, then yesterday's sell-off can be a opportunity to put a little money to work in the stock market. If your investment horizon is shorter than three years, then you are speculating on what is going to happen to stock prices in the short-term.

Russ: From Russ: I have \$20,000 to put in mutual funds for our IRAs. Should I proceed immediately to take advantage of the drop or wait a week to see what shakes out? Russ

Ted_Yoos: I am assuming from your question, Russ, that you have \$20,000 in cash either already in your IRAs, or that you will be adding to your IRAs very soon. I would recommend that you begin by deciding what asset allocation you are targeting for your IRA investments, that is, what mix of stocks, bonds, cash, and other investments you want to have in your portfolio generally and your IRAs specifically.

Ted_Yoos: If my assumptions are correct, and you have decided on an asset allocation for your investment portfolio, and you expect that this money will be invested for a minimum of five years, then I would suggest beginning to invest some of this cash in high quality stock mutual funds or exchange traded funds. Use a technique called "dollar cost averaging." Invest a fixed amount every month over the next 3-6 months until the \$20,000 is fully invested. Dollar cost averaging over time will help reduce the risk of investing all of the money when prices are at or near a peak.

baerga: I can't believe people on CNBC were talking about gold again? Too early for gold, right? Dead-end investment?

Ted_Yoos: Remember what the job of the financial media such as CNBC is. Their job is to grab people's attention, and keep it, in order to increase their viewership or readership, increase their ratings or circulation, sell more advertising, and make more money. Therefore, the financial media will generally do whatever they think is likely to attract and hold people's attention. At times such as this, that is generally to say, "the sky is falling" and encourage people to take refuge in their bomb shelter.

Ted_Yoos: Having said that, there is a role in a well-diversified investment portfolio for a small allocation to a broad basket of commodities. Gold is one commodity, however there are many others such as petroleum and related products, other precious metals (silver, platinum, etc.), base metals (steel, copper, etc.) agricultural commodities (corn, wheat, soybeans, coffee, etc.), and others. A small allocation to a broad-based commodity investment in a well-diversified portfolio can help reduce portfolio volatility and enhance returns during periods when stocks are under pressure because commodity prices have a very low correlation with stock prices. In other words, when stocks are "zigging," commodities tend to "zag."

franko: Roth IRA - I am 65 years old and have had a Roth from the beginning - what is taxable?

Ted_Yoos: The answer to your question, Franko, involves two parts. The contributions you have made to your Roth IRA are never subject to income tax when you withdraw them. This is because Roth IRA contributions are made with "after-tax" dollars, that is, earned income that has already been subject to income tax.

Ted_Yoos: The return that your Roth IRA investments generate on your contributions will not be subject to income tax if your Roth IRA has been open for more than five years. If you are under age 59 1/2 when you withdraw some or all of the returns on your Roth IRA contributions, the returns will be subject to a 10 percent early withdrawal excise (penalty) tax, even if the returns you are withdrawing have been in the account for more than five years.

rose: Should I buy?

Ted_Yoos: Rose, that is a very good question that I cannot answer without discussing your financial situation with you in much greater detail than this chat will permit. I would recommend that you seek the services of a fee-only personal financial planner that can help you write down your investment goals, create a long-term written investment plan for you, and then provide you with objective recommendations to implement the plan.

rose: Also, I don't use a credit card but keep getting them. How can I cancel all credit card offers as I don't need them?

Ted_Yoos: You can try contacting the three main credit reporting firms (Equifax, Trans Union, and Experian) and request that they do not provide your credit report to credit card firms for the purpose of soliciting you to receive their credit cards. If that does not work, try calling the Massachusetts Attorney General's office of Consumer Affairs for suggestions, and remove your name from mailing lists with the Direct Marketing Association.

Ted_Yoos: Last call for questions for the financial chat!