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INVESTING GUIDE 2006: STRATEGIES THROUGH THE AGES

Fifties are most crucial time to save

By George Avalos
CONTRA COSTA TIMES

For Guy Schwartz, the dot-com implosion became the catalyst for once burned, twice shy when it came to investing.

Why? The meltdown of technology stocks scorched his portfolio.

During the good times of the stock market's irrational exuberance, his investment holdings were tech-heavy. Unfortunately, Schwartz was still holding a portfolio laden with high-tech when the Nasdaq plunged from its lofty perch of March 2000.

The Nasdaq's record highs may seem like a distant memory now, but Schwartz still remembers those heady times.

"During the dot-com bubble, we were opening our retirement statements and loving it," said Schwartz, a Moraga resident.

He figured the best way to capture some decent gains was to focus on the hot sector at the time.

"I was over-weighted in technology," Schwartz said. "It was the best place to get a good yield. But it went against the tenet to diversify, diversify, diversify."

Then the bottom fell out when investors cooled to the idea of owning stocks in hot-shot tech companies with few prospects of immediate profits -- or sales, for that matter.

"Things went down, down, down," Schwartz said. "We stopped opening our statements. We didn't want to see any more. There was no point in looking."

By October 2002, the Nasdaq had plummeted 77 percent from its high point. The index has recovered nicely from its nadir, but still has less than half the value it had in March 2000.

Schwartz, who is a San Ramon-based mortgage agent, said the dismal collapse of his investments forced him to completely transform his philosophy.

"My mantra now is do not lose principal," Schwartz said. "I am more risk-averse now, having lost so much money from the dot-com bust. Every investment I make has to meet the standard of not losing any principal."

That's especially crucial as Schwartz, who is 50, enters a decade in which he is much closer to retirement age than he is to the years when he first started to work. Schwartz figures there's nothing safer for him than investing more heavily in residential real estate.

"I have been making investments by lending to people through deeds of trust to finance their residential properties," Schwartz said. "Most of my money is being lent directly to individuals through first or second deeds of trust or bridge loans."

In about 90 percent of the cases, Schwartz has financed owner-occupied homes.

In effect, Schwartz is following the advice contained in a Warren Buffet homily: Invest in what you know.

"I know how to lend money to people, and I can judge their ability to repay," Schwartz said.

At the beginning of this year, Schwartz carried out the flip side of his risk-averse policy. He shifted his 401(k) portfolio from stock holdings to all cash. And there it will sit.

Yet it's entirely possible that Schwartz will leap back into owning stocks, either through mutual funds or individual companies. But he first wants to see a major correction for the stock markets from their current levels.

"If the Dow goes to 8,000, that would be a good jumping-in point," Schwartz said. "If bond yields go up, I would put some of that money into short-term bond funds. I just don't want to get burned again. It hurt to open those investment statements."

George Avalos covers the economy, financial markets, insurance and banks. You can reach him at 925-977-8477 or gavalos@cctimes.com.

DID YOU KNOW

• IRA accounts are limited to a total of $4,000 a year in contributions per family. That is small in relation to what you can set aside in 401(k) programs.

• You can have an IRA program along with a 401(k). You may have a Roth IRA instead, and this is a point of consideration.

• When you change employers, you can roll over your 401(k) into your new company's 401(k) plan. However, you probably are better off rolling it over into a new IRA account. That will give you control over the investments you make, while you continue to enjoy the tax deferrals until you draw on the funds.

RESOURCES

• Investment Company Institute, ici.org, 202-326-5800. The ICI is the national association of U.S. investment companies. Founded in 1940, its membership includes 8,571 mutual funds, 671 closed-end funds, 148 exchange-traded funds, and five sponsors of unit investment trusts. Its Web site includes investor education and answers to frequently asked questions. You can write ICI at Investment Company Institute, 1401 H St., N.W., Washington, D.C., 20005.

• The Better Investing organization, betterinvesting.org. East Bay residents are likely to be directed to the Bay Area chapter of this group. Its Web site is betterinvesting.org/chapter/sanfran.

• Superstar Investors, www.superstarinvestor.com/supersites.html.

• Investor Ideas, investorideas.com, 360-945-0708. This company is an investor and industry news and research resource portal. It includes investor newsletters, blogs, news feeds, investor conferences and forums, audio interviews and exclusive articles.

You also can contact them by mail at ECON Corporate Services, Suite 102, 1385 Gulf Road, Point Roberts, Wash., 98281.

• The North American Securities Administrators Association, nasaa.org, North American Securities Administrators Association, 750 First St., N.E., Suite 1140, Washington, D.C., 20002; phone, 202-737-0900; fax, 202-783-3571; e-mail, info@nasaa.org

PORTFOLIOS

Damien Couture

A blend of 55% equities, 35% bonds and 10% cash would be an appropriate target portfolio.

Judith Bedell

Mix of equities should be 50-50. The decade of your age should equal the percentage of bonds.

Sherman Doll

11% large cap blend mutual funds

11% large cap value mutual funds

24% small cap blend and small cap value mutual funds

3% real estate (REITs)

21% international mutual funds

30% fixed income

Libby Mihalka

25% Intermediate Corporate Bond Mutual Fund - Managers Fremont Bond (MBDFX).

5% Treasury Inflation Protection Securities like Vangaurd Inflation Protected Securities (VIPSX)

15% International Stock Mutual Fund.

25% S&P 500 Mutual Fund

5% U.S. Large Cap Stock Growth Fund such as Bridgeway Large Cap Growth fund (BRLGX)

10% U.S. Large Cap Stock Value Fund such as Sound Shore (SSHFX)

10% Small-MidCap U.S. Stock Mutual Fund

5% Commodity futures in a fund like PIMCO Commodities Real Return Strategy

PLANNERS ADVICE

Sherman Doll

These should be the big savings years, right before retirement. A heavy emphasis (70 percent or more of invested assets) on diversified equities is needed in order to fuel continued long-term growth.

Too many investors blow it in these years by making foolish investment choices. If you're behind in your saving and investing, don't swing for the fences in an effort to catch up. You're likely to strike out. If you're ahead in your saving and investing, don't let greed drive you to take unneeded risk.

Libby Mihalka

Now you begin to save in earnest. Don't spend all of your income. Try to keep your lifestyle in check or you won't have enough saved for your retirement years. At this point you should be saving 20 percent to 25 percent of your gross salary for retirement. After the retirement plan you should determine if you can fund an IRA.

After you have exhausted your tax-deferred options you need to start saving in a taxable brokerage account. Your mantra should be save, save, save.

Make extra mortgage payments. Try to have your mortgage paid off before retirement.

Harvey Rowen

You are in your peak earning years. But the decade has been full of change. You changed jobs. Roll over your 401(k) into a Rollover IRA account. If your package from your old employer provided for some of your options and restricted stock to vest, exercise the in-the-money options and sell all of the underlying stock and restricted stock as soon as it qualifies for long-term capital gain treatment (and move on with your life).

Your strategic asset allocation has to reflect all of the changes in your life, plus the fact that you are older and thus have less time to bounce back from market adversity.

Judith Bedell

Your mantra: "The pendulum swings: growth to income, working to retired." It's retirement catch-up time!

Revisit your financial plan on a regular basis with a professional advisor. Buy long-term care insurance -- getting it in your early 50s is significantly cheaper. If you take early retirement, do not take IRA money at age 59-and-a-half. You can still contribute to an IRA as long as you are working. Don't chase growth investments.

Protect what you have; it's important to minimize risk.

Watch allocation between retirement and nonretirement assets -- you need liquidity to fund your estate plan.

Use IRAs for short-term trades and non-IRAs for long-term investments, stressing qualified dividend stocks and municipal bonds.

Pitfalls to avoid: spending like you did 10 years ago, not addressing health care concerns, overestimating investment return, retiring too young.

Frank Catalano

A proper mix of stocks and bonds requires a balance between the safety of Treasury securities and more volatile but potentially higher return stocks. What is suitable depends on individual circumstances, but over a long period of time, equities will outperform bonds.

Many nerves are still rattled by the sharp bear market that ushered in the 21st century and many investors have lost confidence in the equity market as a whole. Do not lose sight of the long-term goal. Even at the high of the market in March 2000, investors with a balanced portfolio -- even after the worse bear market in our lifetime -- were back to those levels in the market by mid-2003.