Nervous? Time to Reassess – or Make – A Financial Plan

We are in a financial crises the likes of which most of us have never seen. It is marked by the biggest bank failure in American history, Dow swings of nearly 800 points to the downside and upside swings of more than 600, a dry-up in the nation's consumer and business credit markets, and world governments still trying to calm the waters.

How are you handling this? Are you sitting dumbfounded in front of the TV? Do you strap on the iPod and vow not to turn it off until the crisis passes? Or do you check your financial plan to make sure you are well positioned for clearing after the storm?

It's easy to succumb to the urge to panic in an economic crisis. Some people sell fearing worse losses. But sudden action is usually a mistake. In the late 1980s, Harvard psychologist Paul Andreassen made news with a research project, which found that those who listened to market news actually made lower returns. Why? Because those who sold – or bought – during a market swing probably discovered a day or two later that the market was really running on hype, not fundamentals.

Now is not a time for knee-jerk action. It's a time for planning and thoroughly considering opportunities. If you don't work with a financial planner, it may be time to consider talking with an expert like a CERTIFIED FINANCIAL PLANNER™ professional. You pay a financial planner to devise a financial strategy that matches your risk tolerance and long-term financial goals. No, there is absolutely no way to guarantee that you'll never lose money in a turbulent market. But if a plan truly matches you, the noise level on TV shouldn't make a difference because you'll already have contingency plans in place for rough times. So the next time the Dow spikes or slides, ask yourself:

What's my plan? If you've worked with a good financial planner, you should be able to articulate those goals all by yourself or refer to an investment policy statement you made together. Much of the riskiest investing, overbuying and panic selling during the late 1990s and early 2000s could have been avoided if individual investors had sought advice for achieving *long-term* specific goals such as retirement or a college education. Obviously, if you don't have a plan, it might be time to make one with the help of a qualified professional.

How are my bank accounts? As a result of federal economic bailout legislation, the Federal Deposit Insurance Corporation (FDIC) has temporarily raised the per-depositor coverage level from $100,000 to $250,000 through Dec. 31, 2009. Certain retirement-related accounts carry $250,000 of FDIC coverage, but again, check in with your bank to make sure you're covered, and if not, get the right advice for moving funds so you don't incur an unexpected tax liability.

Am I prepared to stay invested – no matter what? We all remember the "Tech Wreck" of 2000. At the worst of that downturn, investors bailed out of the stock market or drastically cut back, only to get back in after they were "convinced" that the market was rebounding. In reality, they missed out on stock market gains during the early stages of recovery, and that's costly in the long run. Of course, some investors looking for that late 20th century investment high also got into the real estate market, and they perhaps learned a similar lesson when that market started heading south two years ago.

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In 2004, SEI Investments studied 12 bear markets since World War II. Investors who either stayed in the market through its bottom, or were fortunate to enter at the bottom, saw the S&P 500 gain an average of 32.5 percent (not counting dividends) during the first year of recovery. Investors who missed even just the first week of recovery saw their gains that first year slide to 24.3 percent. Those who waited three months before getting back in gained only 14.8 percent.

Am I diversified? The NASDAQ lost 39 percent of its value just in 2001, and another 21 percent in 2002. Meanwhile, real estate investment trusts, which performed poorly in 1998 and 1999 when stocks were booming, had banner years in 2000 and 2001, performed so-so in 2002, and had an excellent 2003. Bonds also returned well during the bear market. Your planner, based on your risk profile, should have you in diversified investments that fit your goals. Besides, moving holdings while the market is turbulent not only costs you money, but potentially returns as well.

Do I still feel the same way I used to about returns? Having a long-term investment plan doesn't mean make the plan and leave it to gather dust. You and your planner should decide when it's time for a review of your investment goals and your feelings about them. An annual conversation makes sense if nothing's going on, but in times like these, a phone call might be a good idea.

How's my retirement? Obviously, the ups and downs in the market have been going on for a while and they might last a while longer. How will this impact your retirement timetable? You might want to continue working full-time or plan a phased-in approach as you continue to build assets. There is a great danger now that people may become either too risk-adverse or assume too much risk in planning for their retirement, and that's why it's wise to get advice.

How's my spending? It's a good time to make a budget or re-assess the one you have. Though the federal government would love for consumers to start spending again to lift the economy, that doesn't mean you have to jump in with both feet. Keep your spending smart, your debt low so it's easier to set savings and investment priorities that will do you the most good when the economy and the market comes back.

Got cash? You should have an emergency fund of three to six months' worth of living expenses in case your job situation goes south, but the market turbulence we've experienced also highlights the need to be somewhat liquid in your investment positions so you can take advantage of certain opportunities. Not every investment that's lost value is necessarily a bad investment, and with careful study, you should be able to have cash on reserve so you can take advantage of such events.

How's my credit? No one knows how long it might take to unravel the nation's current credit situation. That's why creditworthy individuals might want to delay looking for new lines of credit until things loosen, and it's definitely a good time to schedule review of each of your latest credit reports at staggered intervals throughout the next year. Why? Because in tough economies and times of tight credit, identity theft might be on the rise, and you'll need to make sure the information on your credit data is truly your own.

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Should I keep saving and investing? Definitely. Again, while times are tough, it's wise to examine all your investment choices, but if they make sense, definitely put what you can afford in. You'll reap rewards when the market returns.

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