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Surviving the Wall Street Storm

By Dan Kadlec

Yes, Wall Street is still a scary mess, but don't resort to putting your cash under the mattress.

If you're like a lot of other people, you may have found yourself paralyzed when the financial markets began to seize up last month. That's probably a good thing. (Your paralysis, not the markets'.) Because it rarely pays to make money decisions quickly, especially when the heart of the storm is upon you. But now is a good time to take a deep breath and review all your financial assets — and make a few key adjustments.

We've just been through the most tumultuous market environment since the Depression. We learned (again) that banks and brokerages can fail, insurers can go broke and even ultra-safe money-market funds can lose value. But we also learned (again) that true diversification, patience and attention to risk are your best safety nets.

Here's what to do now.

Hold More Cash

This crazy ride may not be over. So the more cash you have in short-term securities like bank CDs, interest-bearing checking accounts, money-market mutual funds and Treasury bills, the better shape you'll be in to ride out a market slump and invest again when the economy stabilizes. Typically, a decent cash cushion is three to six months' worth of living expenses if you are working and 12 months' worth or more if you are retired. Double the cushion if you can. "Believe me," says William Jordan, president of the Sentinel Group, financial planners in Laguna Hills, Calif., "you will not look back at this period and say, 'I had too much money in reserve, and look what it cost me.' "

The best way to build cash is by cutting spending. You might also temporarily divert any monthly investment contributions or pare any assets where you may be overconcentrated. But restart your monthly contributions promptly — and avoid selling stocks simply because they have fallen. As a broad asset class, stocks will recover, though not all individual shares (like those of some beleaguered financial companies) will rebound.

Get Full Protection

Every generation endures an event that reinforces the importance of federal guarantees on investments and savings. Your event just happened. But those guarantees have limits. So if you have a lot of cash with any one financial institution, you may not be fully protected. Don't panic. Just spread your assets around to as

many banks or brokerages as necessary. In the case of a trust, naming multiple beneficiaries can do the trick as well.

Although the government does not guarantee against investment losses from stocks or bonds — and has put only a temporary guarantee on losses from money-market funds — it does guarantee that your deposits or securities will be returned to you should an institution fail. The limit is \$500,000 in brokerages for each unique account per institution, \$250,000 on deposits in retirement accounts and \$100,000 on deposits per person per bank, although there's a movement afoot in Congress to raise that limit to \$250,000. With something like a revocable trust or POD (payable on death) account, you are guaranteed up to \$100,000 per named beneficiary.

For homeowners' and other kinds of insurance, it falls to your state to guarantee your policy. State limits vary, which is why it generally pays to do business only with insurance firms that rating agencies regard as investment-grade and that have long track records of paying claims in good times and bad — you know, like AIG. In other words, aim for big and reputable, the kind of firm likely to get bought up (or bailed out) if it runs into trouble.

Diversify Internationally

You should always have your savings spread among large, medium and small stocks, bonds and some cash in safe short-term securities. It's more important now than ever before to include in this mix some foreign stocks and bonds. If this crisis deepens, the costs could prove so staggering to the U.S. government that the dollar might plunge or interest rates might rise. Foreign holdings won't be immune to such fallout. But they will at least offer a buffer. "Give up the ability to hit a home run to make sure you don't strike out," says Dan Moisand, a financial planner in Melbourne, Fla. That sounds pretty good right now.

(See [the ten steps to the financial meltdown here](#) and [TIME's photos of the global financial crisis here](#).)

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