

Six Tips for Investors in a New Economy

By Dan Greenshields, CFA

The Dow Jones Industrial average declined nearly 34 percent last year.¹ So the desire to give up on investing is certainly understandable.

But over the long haul, the stock market has historically outperformed most other type of investments like cash, bonds and real estate. Why is this? Companies are dynamic, unlike a Bond, Gold or Real Estate, their management and Board of Directors can adjust and change to new market environments both good and bad. Some companies are more successful at doing this, but a diversified portfolio will reduce risk of any one company.

If you have long-term financial goals, the stock market is still the best place to put your money -- especially now, with stock prices at historic lows.

To be certain, investing is risky. However, there are some simple steps you can take to minimize your risk and maximize your gain. Here are six to help you kick start 2009.

Remain Calm

Stock purchasing should be seen as a marathon, not a sprint. A knee-jerk reaction to a market downturn is never the answer. Resist the urge to pull your money out of the stock market and put it all in low-risk -- and, thus, low-yield -- investments. You can hedge against massive losses by keeping a balanced portfolio. Let your money work for you to make up ground you lost last year. It can't do that sitting in a cookie jar.

Earn Rewards, Avoid Instant Gratification

Whether you're saving for a long-term goal such as retirement, or a mid-term goal like a child's education, you should set target milestones and reward yourself for reaching them. For instance, don't buy a new television until you've made regular contributions to your 401(k) for a set number of months. You'll feel better about your purchase knowing that you truly earned it.

Set Up Automatic Savings

Make long-term savings like a bill, just like cable television or your cell phone. Pay \$50, \$100, \$200 -- whatever you can stomach -- each and every month into your savings or investment account.

Most employers allow you to automatically deposit a set amount right from your paycheck to you savings account, or to a retirement vehicle like a 401k. You'll hardly even notice the difference in your paycheck -- but you'll be awfully glad you did it later.

Do Your Research, Then Diversify

You have to do your research. Just like you're not going to get a flat stomach without working for it, you aren't going to achieve investment success without working for it. There are plenty of newspapers and newsletters you can subscribe to. The internet is also an excellent tool to do stock research.

While just about every investor lost money this past year, the people with well-diversified portfolios weren't hit as hard. Just like a healthy diet consists of foods from many different food groups, a healthy

¹ <http://finance.google.com/finance/historical?cid=983582&startdate=Jan+2%2C+2008&enddate=Dec+31%2C+2008>

portfolio consists of many different kinds of investments, including stocks, bonds, and money market accounts.

Exploit Retirement Vehicles

Many employers will match money you contribute to your 401(k) retirement account. If you don't already contribute to your 401(k), start now. And whatever you need to do to take advantage of employer matching funds, make sure you do it. It's free money for your retirement. Take it!

Additionally, there are tax incentives for opening and maintaining Individual Retirement Accounts (IRAs). With the Roth IRA, for example, you contribute after-tax money -- but your retirement withdrawals are tax free, earnings and all. Just be sure to talk to your tax adviser.

Make Investing a Way of Life

Investing should be way of life for the entire family. Set a good example for your children by planning for your future and theirs. Get them excited about saving and investing. You'll all be richer for it -- literally and figuratively.

The recent market turmoil has been quite nerve-wracking. But historically, it's downturns like these that have been the best times to invest. And hard economic times show how important it is to save for a rainy day. So start investing. The sooner you start and the longer you save, the better off you'll be.

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