

JANUARY 2009



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Five Tips for Weathering a Tough Economy

After several months of volatility, the markets are hardly inspiring investors with confidence. Given current conditions, you may feel compelled to tap into your longer-term investment portfolio to meet expenses. However, selling now will simply turn possible losses into definite losses. What's more, selling now means you won't be in a position to benefit from the gains of an eventual market recovery.

Market history confirms this: Over the past 10 recessions, the S&P 500 returned an average of 32% in the year following the market's lowest point, according to Ned Davis Research. Keep in mind that these stock market recoveries always begin far before the recession is officially declared over. So if possible, don't sell your securities to get you through the down times. These tips may help you avoid raiding your portfolio at the worst possible time.

- **Maintain cash reserves.** An adequate "cash cushion" mitigates your risk exposure and lets you cover unexpected expenses without tapping into diminished stock holdings. How much depends on your circumstances, but generally it is wise to squirrel away six months of expenses in safe, liquid investments—savings accounts, CDs or money market funds.
- **Consider refinancing your mortgage.** Mortgage rates for lenders with excellent credit are currently at a 50-year low, making it a great time

to refinance and give your monthly budget some additional wiggle room. Also, take a look at your homeowner's insurance policy—declining home values may mean you're overinsured. These two areas of potential savings can loosen up cash for building your reserves, augmenting your monthly budget or even investing in bargain equities.

- **Prepare for long-term care.** As you age and health care becomes a greater concern, nursing home or at-home-care expenses can affect your nest egg and cause profound damage to your long-term financial plan. Purchasing long-term health care insurance protects your portfolio against this threat.
- **Hedge against inflation.** With all the extra cash the government is injecting into the economy, inflation may come as part of the recovery package. Treasury inflation-protected securities, which are currently selling at about the same price as normal Treasuries, automatically adjust your principal at the rate of inflation and pay a fixed coupon on that amount.
- **Balance your risk.** Variable annuities can provide a guaranteed regular income stream to augment your household budget. Many annuity products also track their guaranteed income stream as markets move higher—while also providing a floor below which payments cannot dip.

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In the end, you can't control what happens with the markets. But you can control how you react. This is a good time to take a fresh look at your personal cash flow and find ways to shore up your income while limiting your expenses. Meanwhile, let your long-range portfolio correct itself. That may be a painful option now, but it's likely that in a few years, as the market rallies, you will be glad you did.

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