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NEWS

For Immediate Release

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Rough 2008? What to Do in 2009

Book Author / Financial Expert Rick Ferri Offers Tips for Making Sound Investment Decisions

TROY, MI (January 15, 2009) – As the woes experienced on Wall Street in 2008 infected Main Street and caused the economy to plunge into the worst recession since World War II, individuals watched their home values and retirement accounts shrivel while the unraveling stock market unnerved some investors who reacted by selling.

Now that 2008 is finally over, what should investors do in 2009? According to Richard Ferri, CEO and Founder of Portfolio Solutions, this is a question many prospective clients have asked him. “There is no one-size-fits-all solution,” says Ferri. “The answer depends on you goals, stage in life, cash flow needs, and how well you are sleeping at night; or not.”

Financial experts strive to articulate their belief that investors should not become emotional about their portfolios in a bear market because that is often when the worst mistakes are made. “By its very nature, stock values can go on a roller-coaster ride in the short-term – and last year it was a wild ride,” Ferri says. “In the long-term, stocks have outperformed bonds, and they are expected to outperform in the future. Nothing has changed with those expectations.”

UNDERSTANDING RISK AND RETURN

Ferri advises, “When clients ask if they should consider reducing their allocation to stocks in light of a potential prolonged recession, I tell them to stop and think beyond the moment. Changing an allocation to stocks is a major decision because it affects lifestyle decisions in retirement. The less money you have, the fewer choices you will have.”

There are, however, several good reasons to change your allocation to stocks along life's journey. Those changes require deep thinking and an even-handed judgment and should not be made in a heat of the moment. Ferri believes there are three situations when an investor has a good reason to make an allocation change:

ONE: BACK OFF WHEN CLOSE TO A SAVING GOAL

According to Ferri, if a hard dollar retirement goal is well within reach, an investor might consider reallocating to reduce market risk. "When you are close to your retirement goal, that is the time to take your foot off the gas peddle," says Ferri. For example, if the goal is to retire in three years with $2,000,000 and an investor already has $1,800,000, the rate of return needed to hit the goal in three years does not require a high-risk allocation.

TWO: ADJUST RISK FOR HEIRS IF THERE IS MONEY TO PASS ON

"Investors sometimes save more than enough to retire," Ferri says. "When retirees realize there is no way they will need all of that money, that is an appropriate situation in which to consider making allocation changes." At that point, Ferri advises, investment decisions are being made for both the retirees and their heirs, and the overall asset allocation should reflect the needs of both parties. Assume that a retiree may believe a 30 percent allocation to stocks is right for their short-term needs while a 70% allocation for right for their heirs long-term needs. Put together, an appropriate allocation for the portfolio may 50 percent stocks and 50 percent bonds.

THREE: REDUCE EXPOSURE IF EXCESSIVELY WORRIED

Investors often realize that their risk tolerance is not as high as they thought during a bear market. "If you aren't sleeping at night because you are increasing worried about your portfolio, then reduce your equity position by 10 percent," says Ferri. "Give that some time to see if you can sleep better. If the anxiety persists, reduce equity by another 10 percent. The portfolio has an appropriate level of risk when you are able to think clearly and sleep adequately. Once you find this level of comfort, stay there, even when the market recovers. That allocation is you maximum tolerance for risk"

FINALLY, COSTS MATTER!

Ferri stresses low fees, "It's also important for investors to have a low-cost, long-term portfolio plan. Too many investors pay too much for the financial advice and portfolio management services. In every market, bear or bull, every dollar you save is a dollar you put in your pocket. Hire a cost advisor who has your best interest at heart."

ABOUT RICK FERRI AND PORTFOLIO SOLUTONS, LLC

Richard A. Ferri, CFA, is founder and CEO of Portfolio Solutions, LLC, an independent SEC Registered Investment Advisory firm offering low-cost, professionally managed investment portfolios. Rick holds an MS in finance and is a Chartered Financial Analyst (CFA). He has published five books and many articles on low-cost investing using index funds and ETFs. Learn more at www.PortfolioSolutions.com.

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