hang tough in a difficult market

keep sound strategies in mind

The market drops 400 points in one day. The newscasters call it "the biggest point drop in history." How will it affect your retirement portfolio?

Of course, you know that one of the *worst* times to sell an investment may be after a market drop. News like this only fuels fear and anxiety—it does nothing to advance your investment portfolio.

So what should you do when the market tumbles?

As of early March 2001, the Dow Jones Industrial Average had returned a negative 5% for the year. The Nasdaq Composite Index, reflecting the dramatic downturn in technology stocks, suffered the sharpest declines—down a stomach-churning 62% from its record high a year ago.

All the investment techniques you learned—asset allocation, diversification, dollar cost averaging—made perfect sense while the markets were soaring. But do they still hold true when markets are falling?

More than ever.

In fact, now that some of the high-flying stocks of the '90s have declined, maintaining a diversified portfolio—one that focuses on long-term goals—is probably one of the best things you could do.

What you need to know now

The key to weathering market volatility is good, solid preparation. If you embrace the basic investment principles and strategies you've learned, you'll be less likely to make big mistakes.

While bear markets are difficult to endure, well-prepared investors realize that market declines are normal. And although some novice investors haven't experienced a market downturn until just recently, most are aware of some of the more notorious drops. Since 1946, there have been 37 drops of 10% or more in the Dow Jones Industrial Average and 36 drops of 10% or more in the Nasdaq since it began trading in 1971.[1] Realistic investors don't expect that markets will always go up, but they do understand that historically, stocks have significantly outperformed other types of investments and have outpaced inflation.

Market downturns are a good opportunity to stick to your investment plan. In fact, some of the strategies you've employed all along can be even more effective during declines.

Reevaluate your investment strategy. You might find that market downturns are a good time to ask yourself a few questions. Am I comfortable with the level of risk I have taken on, or are the market swings more than I can handle? Did my portfolio become overweighted in any one area, causing more significant volatility than I am comfortable with? If daily market activity keeps you from sleeping at night, it might be time to review your investment objectives. But if your long-term objectives are still intact, hanging tight might be the best course of action.

Think about buying low. Declining markets often pose an opportunity many investors don't consider—purchasing more shares at lower prices. Let's say you bought shares of a mutual fund last year when prices were high. If you purchased additional shares when the price was dropping, you could be purchasing those shares at a much lower price. And, if you continued to purchase shares on a regular basis, you could help lower the average cost of your purchases.[2] Although the

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markets may look grim at any given point in time, many investment professionals believe that stocks are "on sale" during significant market declines, and look upon them as good times to buy.

Don't forget to diversify. If market downturns are effective at doing one thing well, it's illustrating that diversification is one of the most important investment strategies in existence. Nobody can predict when the markets will turn. That's why it's important to spread your assets among various investment classes. Anyone who invested heavily in technology stocks without understanding the risks can appreciate that. The most important thing to remember—no matter how high or low the markets drift—is to be sure that your investment strategy is in keeping with your goals. By exposing yourself to different segments of the market, you can help lessen the risk should one particular market segment or asset class show weakness. Keep in mind that diversification does not ensure a profit or guarantee against a loss.

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One of the most important things to remember during a difficult market is to keep your focus on maintaining your sound investment plan. If you've set goals and developed a strategy, you owe it to yourself to keep your plan on track—especially during the market's peaks and valleys.

[1]Source: FMR Co., 2001.

[2]Dollar cost averaging will not ensure a profit or guarantee against loss in declining markets. It involves continuous investment in securities regardless of their changing price levels. You should consider your financial ability to continue purchases through periods of low price levels.

Past performance is no guarantee of future results.

The Nasdaq Composite Index is an unmanaged index of over-the-counter stock prices and does not include the reinvestment of dividends.

The Dow Jones Industrial Average, published by Dow Jones & Company, is an unmanaged average of 30 actively traded stocks (primarily industrial) and assumes reinvestment of dividends. It is not offered as a comparison for any investment option but rather as a general stock market indicator.

All indexes are unmanaged and performance of the indexes is not illustrative of any particular investment. An investment cannot be made in any index.

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