

You're Not a Kid. Stop Investing Like One.

At your age, you have way more money at risk and far less time to recover from losses. Don't blow it.

▶ **How do you know when you've** crossed the invisible line and you're not young anymore? Maybe it's the first time you look at *Billboard's* top 20 list and don't recognize a single name. Or when your kids start staying out later at night than you can keep your eyes open. Or maybe it hits you when you realize that if the stock market falls 30%, as it does from time to time, you'll lose the equivalent of a year's pay, not a week's, and you don't want to have to work forever to make the money back.

In the last case at least, there's a silver lining. It means you've managed to put away a substantial sum, reaping the ben-

a host of other troubling financial signals, you've got reason to worry about stock prices tumbling (see the Invest section on page 71). Yet with many good years still in front of you, getting out of the market isn't an option either. You need your savings to keep growing to outpace inflation and reach your goals.

How are you supposed to do all of these contradictory things at once?

GET SOME PERSPECTIVE Although it may not feel like it, you probably have time to ride out a decline. Consider the bear market that started in 2000, one of the worst ever. Standard & Poor's 500



ment strategist at S&P. In every market drop of less than 15% since 1970 (there have been many), the index has fully recovered within a year.

DO A GUT CHECK That doesn't mean you shouldn't take action to minimize your losses in a pullback, especially if you reach for the Tums every time you listen to the financial news. "If you're worrying because you can't accept a market drop, now—before there's another big one—is a great time to adjust your asset allocation," says Steven Sheldon, president of SMS Capital Management in Houston.

To assess your age-appropriate tolerance for risk, ask a few simple questions. How much longer do I want to work? Has my health declined? Do I have any large expenses fast approaching, like college tuition or elder care for a parent? These will give you an idea of how much money you'll need fairly soon and how securely it should be tucked away. Pick an asset mix that suits you—the sooner you need the money, the less you should hold in stocks—then rebalance once a year to maintain that blend. For help, check out the Asset Allocator tool in the personal-finance section at cnmmoney.com. A conservative recommended mix for someone who doesn't need current income and will retire in about 10 years: 40% large stocks, 15% small stocks, 15% foreign stocks, 25% bonds and 5% cash.

▶▶ **It took 30 years of saving and compounding to get where you are. But that's a once-in-a-lifetime deal. You'll never get those 30 years back.**

efits of 30 or so years of steady saving and compounding returns. But that's a once-in-a-lifetime deal. You will never get those 30 years back. If you're a boomer, in other words, the math has started to work against you: Whether you're 49 or 56 or 60, odds are you have more to lose than ever and less time than ever to recover if something goes wrong.

So your age demands that you become more risk-averse. And with the market coming off record highs, the housing market taking forever to find a bottom and

dropped 49% over nearly three years, and the index took more than seven years to fully recover. Do you have seven years before you'll start drawing down your savings? Plus, you're not going to withdraw the whole shebang on Day One but rather over 20 to 30 years or more.

Keep this in mind too: Drops of that magnitude occur only about every 30 years. Declines of 20% to 30% are more typical, and on average the S&P 500 gets back to even 3.5 years after a pullback begins, says Sam Stovall, chief invest-

MINIMIZE THE DOWNSIDE You want to spread your money among the broad asset classes of stocks, bonds and cash, obviously, but you should also diversify within them. Your stocks or stock funds, for instance, should include foreign shares and a mix of small, medium and large companies, especially big companies that pay a dividend and have consistently grown earnings. Your bonds should be Treasuries and high-grade corporates. An inflation hedge like gold or Treasury Inflation-Protected Securities (TIPS) wouldn't hurt either.

How effective is broad diversification? Consider the Vanguard Wellington fund, which takes such an approach. In the last bear market—one of the worst ever—this fund actually rose 2.4%. It has lagged the S&P 500 since then but by only a small amount. Then too, in the seven or so years that the large-cap S&P 500 was falling and clawing back to even, foreign stocks rose 30%, small stocks doubled and real estate investment trusts more than doubled. The amazing truth: Folks who had properly spread their bets back in 2000 didn't feel much of a pinch at all.

DON'T SELL AFTER PRICES FALL When today's bull market finally ends—and it will—don't give in to temptation and sell. It's not easy to stand firm. But selling after a drop almost always backfires. In fact, if your nerves can stand it, buy more shares while prices are down. Although making a big bet on a market bottom is reckless, a regimen of investing the same dollar amount every paycheck, month or quarter lets you actually benefit from dips, corrections and bear markets. This discipline can't work quick magic on large losses, but it virtually guarantees that you'll bounce back faster. So instead of worrying about the next bear market, get ready for it and sleep well—at least until the kids get home and wake you. **\$**

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