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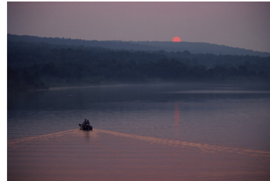
Five Ideas for Staying Sane in a Crazy Market



A key part of managing your money is managing your emotions, particularly when the stock market is going through a period of uncertainty. Being able to keep your cool is one of the most valuable skills you can have as an investor.

Stay on course by continuing to save

Even if the value of your holdings fluctuates, regularly adding to an account that's designed for a long-term goal may cushion the emotional impact of market swings. If losses are offset even in part by new savings, the bottom-line number on your statement might not be quite so discouraging.

If you're using dollar-cost averaging--investing a specific amount regularly regardless of fluctuating price levels--you may be getting a bargain by buying when prices are down. However, dollar-cost averaging can't guarantee a profit or protect against a loss, and you should consider your financial ability to continue purchases through periods of low price levels.

Stick with your game plan

Solid asset allocation is the basis of sound investing. One of the reasons a diversified portfolio is so important is that strong performance of some investments may help offset poor performance by others. Even with an appropriate asset allocation, some parts of a portfolio may struggle at any given time. Diversification can't guarantee a profit or protect against a loss, but it can help you balance risks.

Look in the rear-view mirror

If you're investing long term, sometimes it helps to take a look back and see how far you've come. If your portfolio is down this year, it can be easy to forget any progress you may already have made over the years, though past performance is no guarantee of future returns.

Think about why you made a specific investment in the first place. That can help you determine if it still deserves a place in your investing strategy. Understanding how a specific holding fits in your portfolio also can help you consider whether a lower price might actually represent a buying opportunity. If you don't know an investment's purpose in your overall strategy, now's the time to find out.

Remember that everything's relative

Most of the variance in the returns of different portfolios is generally attributable to their asset allocations. If you've got a well-diversified portfolio, it could be useful to compare its overall performance to relevant benchmarks. If you find that your investments are at least matching those benchmarks, that realization might help you feel better about your overall strategy.

Remind yourself that nothing lasts forever

Ups and downs are normal for the stock market. If you regret not selling at a market peak, or missed a bargain, remember that you're likely to have other opportunities at some point. Having predetermined guidelines for buying and selling can prevent emotion from dictating investment decisions.

> ***Being able to keep your cool is one of the most valuable skills you can have as an investor.***

Should You Roll Your 401(k) Money Over to an IRA?

If you're entitled to a distribution from your 401(k) plan (for example, because you've left your job), and it's rollover-eligible, you may be faced with a choice. Should you take the distribution and roll the funds over to an IRA, or should you leave your money where it is?

Across the universe

While the investment flexibility that IRAs provide can be a benefit for some people, it may be a drawback for others.

In contrast to a 401(k) plan, where your investment options are limited to those selected by your employer (typically mutual funds or employer stock), the universe of IRA investments is virtually unlimited. For example, in addition to the usual IRA mainstays (stocks, bonds, mutual funds, and CDs), an IRA can invest in real estate, options, limited partnership interests, or anything else the law (and your IRA trustee/custodian) allows. (Certain investments may not be right for everyone, and some may have adverse tax consequences, so be sure to consult your financial professional.)

While the investment flexibility that IRAs provide can be a benefit for some people, it may be a drawback for others. If you lack investment knowledge and experience, you may be more comfortable with the limited investment alternatives your 401(k) plan provides.

Take it easy

The distribution options available to you in a 401(k) plan are typically limited, usually to a lump-sum payout, or installments payable over a period of years. And many plans require that distributions start if you've reached the plan's normal retirement age (often age 65), even if you don't yet need the funds.

Similarly, 401(k) plans often require that a beneficiary take a lump-sum payment shortly after the plan participant dies. This may not be a problem if your beneficiary is your spouse--he or she can roll the funds over to an IRA after your death. But a nonspousal rollover is possible only if your 401(k) plan allows it. And some don't, forcing your beneficiary to take a distribution he or she may not yet need.

On the other hand, you can access the funds in an IRA at any time. You--and your beneficiary after your death--can take out as much, or as little, as you want. While you'll need to start taking required minimum distributions (RMDs) after you reach age 70½ (and your beneficiary will need to take RMDs after you die), those payments can generally be spread over your (and your beneficiary's) lifetime. (You aren't required to take any distributions from a Roth IRA during your lifetime, but your beneficiary must take RMDs after your death.) A rollover to an IRA lets you and your beneficiary stretch distributions out over the maximum period the law allows, letting your nest egg enjoy the benefits of tax deferral as long as possible.

Note: *Distributions from 401(k)s and IRAs may be subject to federal income tax. In addition, a 10% early distribution tax may apply if you haven't reached age 59½. (Special rules apply to Roth 401(k)s and Roth IRAs.)*

Gimme shelter

Your 401(k) plan may offer better creditor protection than an IRA. Federal law currently protects your total IRA assets up to $1,095,000--plus any amount you roll over from your 401(k) plan--if you declare bankruptcy. (The laws in your state may provide additional protection.) In contrast, assets in a 401(k) plan generally enjoy unlimited protection from your creditors under federal law, whether you've declared bankruptcy or not.

Let's stay together

Another reason to roll your 401(k) funds over to an IRA is to consolidate your retirement assets. This may make it easier for you to monitor your investments and your beneficiary designations, and to make desired changes. You may also want to consolidate all of your IRAs. However, make sure you understand how Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) limits apply if you keep all your IRA funds in one financial institution.

Fools rush in

- While some 401(k) plans provide an annuity option, most still don't. By rolling your 401(k) assets over to an IRA annuity, you can annuitize all or part of your 401(k) dollars.
- Many 401(k) plans have loan provisions, but you can't borrow from an IRA. You only can access the money in an IRA by taking a distribution, which may be subject to income tax and penalties.
- If you were born before 1936, lump-sum distributions from your 401(k) may be eligible for special 10-year averaging or capital gains treatment. A rollover may make you ineligible for these tax rules.

Buying a Home in Foreclosure

They're not all in run-down neighborhoods, and they're not all in complete disrepair. As the housing market's woes continue, more homes go into foreclosure, and more real estate investment opportunities open up. While a buyer still has to prepare and beware, it may be possible to purchase a property in foreclosure at a discount off its market value.

Foreclosure is a legal process whereby a lender terminates a borrower's right to redeem a property, generally because the borrower has defaulted on the mortgage. Once the foreclosure process is complete, the lender can sell the property to repay the mortgage.

If you're considering buying a foreclosed property, keep in mind that there are many pitfalls to watch out for, and laws vary from state to state. You'll want to work with an experienced real estate attorney.

The three stages of foreclosure

Depending on state law, foreclosure can be a relatively short or lengthy process. You might be able to buy a property in pre-foreclosure, at a foreclosure auction, or (if it didn't sell at auction) in the real estate owned (REO) phase.

Pre-foreclosures

In order to identify properties that are in a pre-foreclosure status, you'll need to locate loans that are in default. To do this, you may need to spend time in the courthouse researching foreclosure filings or subscribe to an online foreclosure reporting service that will do this for you. Once you find a property you're interested in, you'll need a title search performed to determine what liens are against the property, and you'll need to contact the owner to negotiate a purchase. You'll also need to have the property inspected (it may need some repair work) and then determine its market value. In making an offer on the property, consider the cost of paying off liens, repairing the property, and any other fees you'll need to pay (such as those associated with securing financing to make the purchase).

This option requires a lot of legwork on your part and (preferably) the services of others experienced in the process. Contacting an owner (especially one who hasn't listed the property for sale) can be difficult and stressful. However, pre-foreclosure sales may require minimum down payments, and you may be able to acquire a property at a good discount off its market value.

Auction sales

Once the foreclosure process is complete, the foreclosing lender (usually the holder of the first mortgage) may attempt to sell the property at auction--a fast-moving, public proceeding. Before you buy, you should have the title researched just as you would when making a pre-foreclosure offer. However, you generally won't be allowed to have the property inspected beforehand (which precludes the possibility of obtaining a mortgage to purchase it), so you'll be buying it "as is" and may not know all of what that entails. If you're the successful bidder, you'll need to make at least the required minimum down payment in cash (or with a certified check) on the spot and pay or finance the balance within 30 days, sometimes sooner.

Because you can't first inspect the property and arrange financing, and because you must buy it "as is," buying a property at auction can be very risky. However, you can receive a substantial discount off the market value of a property when it's bought at auction.

As the housing market's woes continue, more homes go into foreclosure, and more real estate investment opportunities open up.

Real estate owned (REO) properties

If a foreclosed property doesn't sell at auction, the foreclosing lender takes possession of it. As a result, junior liens (such as second mortgages or home equity lines of credit) that may have encumbered the property's title are discharged, and any taxes owed are paid. Any occupants remaining in the property are evicted, and the property is usually listed with a real estate agent.

At that point, the property becomes available for inspection. You may be buying an REO "as is," but you'll be able to find out what that means, and can adjust your purchase offer accordingly. While the lender holding the REO will try to get as much as possible for the property, it may consider discounts off market value in order to get the property off its books.

Purchasing an REO is probably the least risky way to buy a foreclosed property. You have time to arrange financing, and you may be able to obtain some discount off the property's market value. However, the discount off market value will generally not be as substantial as with the other options for buying foreclosed property, and working with the bank can be a lengthy process.

Ask the Experts

Should my child apply to college early decision?

In the college early decision process, your child applies early to a particular college (typically in November of senior year), and hears back early (usually by December or January) as to whether he or she has been accepted.

For the student who has his or her heart set on a particular college that's also a good fit, applying for admission early decision can be a favorable way to get a leg up on the competition. It's also a good way to try to avoid the anxiety that typically comes with having to wait until spring for an acceptance letter. A student who gets accepted early may better enjoy his or her senior year, since there'll be more time for hobbies, courses, work, or activities that he or she might not otherwise have the time or inclination to pursue.

However, there's a catch: an early decision application is a binding contract. If the college accepts your child (and offers an adequate financial aid package), your child must agree to attend that college. Consequently, a student can apply to only one college early decision.

There are two situations where applying early decision may not work in a student's favor. First, if a student needs senior year grades or extracurricular activities to boost his or her chances of admission, early decision will preclude consideration of these items. Second, if a student wants or needs to compare financial aid packages from several schools, early decision is not the route to go. Not only will the student have just one financial aid package to review, but the package may not be as generous as it would be for a traditional applicant. Why? Because the college knows that it's the student's first choice--in effect, the student has shown his or her cards.

Keep in mind that if your child does apply to one college early decision, he or she can still apply to other colleges through the regular admissions process as a backup--those applications are typically due by December or January.

What's the difference between early decision and early action?

If you and your child think the early decision process is too limiting, one alternative might be for your child to apply to college under an early action plan.

Early action plans are similar to early decision plans, but are less restrictive. First, a student can apply to more than one college early action. Second, if a student is accepted under an early action application, he or she can either commit to the college immediately or wait until the spring to do so.

Early action thus offers a huge advantage over early decision--your child gains the peace of mind that comes with early acceptance (and may even have several early acceptances by December or January), but can take a wait-and-see approach to making a commitment to any one school. This gives you and your child the opportunity to review the financial aid packages that come in from all the colleges your child has been accepted at, both under the early action process and the regular admissions process.

Not all colleges offer early action (or early decision) applications, however. In fact, in recent years, a handful of highly selective colleges have dropped their early action and/or early decision programs, believing that the process favors affluent students who are less likely to rely on financial aid. For a list of colleges that offer early action or early decision programs, visit www.collegeboard.com.

Considering the flexibility of early action plans, why would a student apply early decision? The answer is commitment--colleges likely consider the early decision applicant more committed, since he or she is bound to attend if accepted.

Students who apply either early action or early decision will need to have all applications and teacher recommendations completed by October or November of senior year.

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