

Buying Into A Down Market

Dollar-cost averaging is an investment strategy that can help minimize your risk over time. Say you invest \$300 a month in a large-cap stock fund. If a share costs \$50, your \$300 buys six shares. If the price drops to \$25, your \$300 buys 12 shares. Ideally, you would only buy when prices are down (to reap greater rewards when prices go up). That's impossible, but dollar-cost averaging may be the next best thing — and you can do it automatically through your retirement savings plan.

Dollar-cost averaging does not assure a profit, nor does it protect against loss in declining markets. Since the plan involves continuous investment in securities, regardless of fluctuating price levels of such securities, investors should consider their financial ability to continue to make purchases through periods of low price levels before deciding to invest this way.

Hypothetical Profile

Charlie Winter, 42, saw the asset allocation he so carefully chose for his retirement savings plan get knocked out of whack due to a prolonged stock market downturn. He initially allocated 70 percent of his contribution to stock funds (35 percent large-cap, 20 percent small-cap and 15 percent international); 25 percent to bond funds (20 percent government and five percent corporate) and five percent to a cash equivalent fund. Now, his stock funds represent only 60 percent of his allocation and his bond funds represent 40 percent. Since he wishes to continue with his more aggressive investment strategy, it's probably time for Charlie to rebalance — and get his asset allocation back to its original allocation percents.

This hypothetical profile and asset allocation is for illustrative purposes only. Small-cap funds are subject to greater volatility than those in other asset categories. International investments are subject to additional risks such as currency fluctuation, political instability and the potential for illiquid markets.

Keep it steady.

Rebalancing means periodically adjusting your portfolio to keep your investments in line with your original asset allocation—based on your goals, time frame and tolerance for risk. Gains or losses in these asset classes may have changed the way your portfolio is weighted among them, as it did in Charlie's case. Once a year it is wise to check to see that your asset allocation is on track. Pick an annual review date and stick with it.

Two good moves.

One way for Charlie to rebalance is to change the allocation of future contributions to his retirement savings plan. He could contribute more to the investment funds that slipped (stocks) and less to those that became overweighted (bonds and cash equivalents), gradually restoring his original asset allocation. Additionally, Charlie could move a portion of his current savings in bond and cash equivalent funds into the stock funds that fell below his target percentage. That would balance his portfolio, as well.

A plan for the ages.

Once Charlie reaches 50, he should revisit his asset allocation *strategy* annually. The closer he gets to retirement, the less time he'll have to recoup losses a market drop may bring, so shifting his main goal from growth to capital preservation would be a good idea. Definitely a way to try to make those golden years truly golden.