

## Coping with a market downer



Don't let disappointing news keep you down. Follow these three steps for investing in a slow economy.

As many investors know, the market isn't always going to perform as you want it to. Riding a bull market to big returns and an overflowing retirement account is exhilarating...just as living with a down market can be worrisome and even nerve-racking. For both peace of mind and as a long-term investment strategy, it's desirable to find a way to cope with the inevitable market downers.

### Step 1: Get down with the markets

The first step in coping is to gain more knowledge. When you hear that the market is "down," what exactly does that mean?

The United States is home to three major stock markets. Markets can be composed of facilities with physical trading floors or a network of computers allowing real-time trading. When you hear that the market is "down," chances are that this is referring to all markets in general not performing well at a given point in time. Here are the three major U.S. markets:

**New York Stock Exchange (NYSE):** The largest stock market in the world traces its history back to 1792. Today shares in more than 3,000 companies such as Coca-Cola and General Electric are traded on a number of physical trading floors in various buildings.

### "The Dow"

At some point you've probably heard on the nightly news that "The Dow" closed at a certain number, or that "The Dow" dropped by some enormous total. As a leading market indicator, the Dow Jones Industrial Average is one of the oldest U.S. market indexes. It is thought of as a kind of barometer of the nation's financial mood. It comprises 30 select stocks chosen from the nation's biggest companies, including American Express, Boeing, ExxonMobil, Home Depot and McDonald's.

**National Association of Securities Dealers Automated Quotations (NASDAQ):** This electronic stock exchange exists solely on a network of computers, where traders can buy or sell shares of more than 3,200 companies, such as Microsoft and Intel. NASDAQ is known for having more technology companies on their exchange.

**American Stock Exchange (AMEX):** AMEX started out in 1921 as a way for companies that did not qualify for the NYSE to be traded. Although owned by the NYSE, AMEX operates independently. It has a central trading floor like the NYSE, where stock in companies such as Alcoa and Intelli-Check trade hands.

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Remember, investing for retirement is a long-term commitment. Once you develop your strategy, stick to it.

### Step 2: Develop the right investment strategy

The second step in coping is to make sure you've got the right investment strategy. You need to take the time to measure your risk tolerance. In particular, are you conservative, moderate or aggressive? Given your answer, the money you invest for retirement should be appropriately diversified among the following three major asset classes: cash equivalents, bonds and stocks.

**Mutual funds** are a common type of investment option. Mutual funds purchase securities that create an investment portfolio based on a specific investment strategy (conservative, moderate or aggressive, for example). Investors then purchase shares of the fund. Many employer-sponsored retirement plans offer mutual funds or similar types of investments. Mutual funds are professionally managed and diversified among individual securities. So if some securities perform poorly, those losses may be offset by gains made by other securities. Be aware that diversification does not ensure a profit or protect against loss.



### Step 3: Stick to your plan

The third step is simple. Once you've got the right investment strategy, stick to it! Remember these simple truths:

**Start early.** The longer you're invested, the better off you're likely to be (and the more downer markets you can likely overcome).

**Don't chase after returns.** Chances are excellent that today's hot stock tip on a new company's cure for baldness will leave investors scratching their heads tomorrow. Stick with a strategy that's right for you, and don't get caught up in the hype.

**Review annually.** Your personal situation will change over time. Be flexible and willing to change your investment strategy if the situation calls for it.

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