

SMART ACTIONS IN TURBULENT MARKETS

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Down markets present both buying and selling opportunities. The big questions, of course, are what and when to buy or sell as well as how to avoid the tax traps. These questions are easy for readers of the book J. K. Lasser's Your Winning Retirement Plan.

What to Buy

Unfortunately, buying stock funds at this time of year is not a good idea unless you can get them in a deferred tax account like a 401(k) or an IRA. The reason is that most of these funds will have huge end-of-year capital gains distributions even though we have gone through some painful declines. That won't hurt you in a deferred tax account, but certainly will otherwise.

On the other hand, if you must buy funds in a taxable account, don't buy into a fund with an imminent capital gains distribution. Call the fund first and find out the date of their distribution as well as the estimated amount. By checking on several possible sources for funds that fit your requirements, you can save yourself a bundle of unwanted tax bills.

When to Buy

"When to buy stocks in a down market" is a tough question for many people, but not for users of the book's disciplines. Here is one of its important suggestions.

Use a stock allocation corridor between 100 and 110 minus your age, so at age 60, your stock allocation should be between 40% and 50%. When you get outside these limits, establish a plan that might take six months of regular payments to get back to the middle, or 45% in this case. Then you'll benefit from dollar cost averaging. If near the end of the year, buy within deferred tax accounts unless the fund has already declared year-end capital gains distributions.

When to Sell

Now is the time to unload some of those funds that no longer fit your plan for future growth. For example, you may be unduly weighted in a particular type of fund and short in another. If your funds are not in deferred-tax accounts, do it before the funds declare year-end capital gains distributions according to one of the many tax-saving hints in J. K. Lasser's Your Winning Retirement Plan. Otherwise you'll have a tax bill that may significantly reduce your nest egg.

Since no one can foresee the future, you may have to alter your plan each month for a while. For example, if the market would continue to decline, you might want to stretch the regular purchases over a greater period of time or increase the amount that you would convert from bond funds to stock funds. Conversely, if the market would take a large favorable turn upward, you might be able to reduce the amount of time to get to your goal or otherwise reduce the size of the conversions.

Experience

The disciplines above have served me well for over thirty years. I've seen many market shifts, both up and down. The good thing about the disciplines above is that they encourage you to buy stocks when the market is down and sell when they are up—just like everyone says you should even though it's seldom accomplished.