Want Some Free Advice?
Top Planners Weigh In on What to Do Now

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The Street.com

Oct. 18 — So, maybe you thought in these salad years of 20 percent-plus average market returns that you're an investing genius and a natural do-it-yourselfer.

Or, maybe you thought all that yammering from your financial planner about, "Diversify, diversify, diversify," seemed like so much old-school hooey.

Is that your final answer?

Market Wake-up Call

As the market events of today and, indeed, the past six months show, the market punishes those who disregard long-held investing principles. Today's market is a wake-up call to those investors who thought that high double- and triple-digit gains were the norm for the stock market. If you've heeded your planner's advice on diversifying, you're probably weathering the storm OK, but if you just couldn't resist the allure of pricey growth stocks, you might be feeling some pain.

What do you do now? That's a question investors across America would love to ask of the best financial planners out there, if only they had access to them. Well, now you do. We surveyed some of the tops in the business about what they're telling their clients today. Here are the results.

A Healthy Correction

Marilyn Capelli Dimitroff , a certified financial planner at Capelli Financial Services in Bloomfield Hills, Mich.:

Dimitroff is telling her clients to stay the course and thinks the market drops could even be a good buying opportunity if an investor has some new money to put to work. "The best advice is to stay put," Dimitroff says.

"The market occasionally has these bumpy periods and that's the price you pay for getting the returns." Though she favors equities over bonds, Dimitroff says she urges investors to keep a fixed-income component, namely short-to-intermediate-term high-quality bonds in their portfolios to cushion the blow of rough markets. The planner also thinks the market's correction is a healthy reaction to what she considers some overvalued stock prices over the past few years.

"I do think there could be a period where stocks will underperform for a long period of time," says Dimitroff. "What we're seeing now is a result of a lot of factors that have been out of whack from some time. We will start from a lower base, but I still think the market has a lot of strength."

Post-election Upside

Michael K. McMahan, certified financial planner at Raymond James Financial Services in Gastonia, N.C.:

Though McMahan thinks the market has not seen the bottom, he does think this year's declines could be followed by a long period of gains on the stock market, especially if the new president, be it Bush or Gore, comes through with some tax cuts that will put more spending money into the economy.

"I don't think we start a major march to the upside until after the election," says McMahan.

So naturally, McMahan says now could be a good opportunity for those people who are not fully invested to delve into the market for some bargains right now. And those who are fully invested? Just stay calm, he says.

"If you are invested in good quality stocks and bonds and they have gone down in value, don't worry about it," he says.

Right now, McMahan says he's looking to sell some stocks that have become what he considers fully priced to find some companies that have been beaten down. Among sectors that look attractive to him right now include telecommunications, while he's reducing his exposure to health care and utility stocks. McMahan is also avoiding pharmaceutical company stocks until more details about the next president's prescription drug pricing plan is known.

A Buying Opportunity?

Matthew T. Reading, certified financial planner at Austin Asset Management in Austin, Texas:

The first thing Reading says to the tech millionaires that come to him for financial advice is to sell their expensive stock options at whatever price and diversify their portfolios. So, if anything, Wednesday's sell-off has vindicated the planner's philosophy.

"This is a moment to show clients the lesson of what volatility is," says Reading. "A lot of [clients] will give lip service to the idea that they know that stocks don't always go up. This is the first year in which they're really having to experience it."

Unless an investor has a compelling reason to sell — to pay taxes or satisfy a margin call, for example. Reading, like other planners, advises investors to stay right where they are or perhaps use the selloff as a buying opportunity.

With much of his client's portfolios in bonds, Reading uses the cash flow from fixed-income investments to scout out the equity markets, so he considers himself in a good position right now.

"If you have extra money, maybe increase your dollar-cost averaging or put your money into equities," he says. "You don't want to do anything reactionary, but this is one of those times."

Reassess Risk Tolerance

Gayle H. Buff, certified financial planner at Buff Capital Management in Newton, Mass.:

Buff says this time of market volatility is a good time for investors to step back and reassess their goals and risk tolerance.

"For people who are heavily invested, I'm hoping that was a strategy that they thought about," says Buff. "If you're comfortable with that, you're able to realize that it's painful in the moment, but what you need to be able to do is focus on the long term."

Buff says the prudent thing for investors to do is wait out the selloff, but also give a lot of thought to asset allocation, and whether they can stomach the wild rides that heavy doses of equities can provide.

Investors may also want to consider taking a look at defensive stocks such as certain pharmaceutical stocks, consumer staples and utilities.

The planner adds that investors who have suffered heavy losses may want to think about selling their losers for tax purposes and taking profits on overvalued shares, thus lessening the tax blow of capital gains. And though she is reluctant to call the market, Buff says that investors need to remind themselves that the hefty stock market gains of the last few years were an anomaly and they should adjust their expectations for more reasonable returns.

"Based on historical averages, if we went back to the mean, which is maybe 10 to 11 percent long term of stocks, then we may be in for some years of underperformance," Buff says.

No Havens

M. Eileen Dorsey, certified financial planner, Money Consultants Inc. in St. Louis, Mo.:

Like other planners, Dorsey echoes the mantra of hang on tight and enjoy the ride, or at least try to.

"If we're long-term investors, we pretty much have to hold on," says Dorsey. "Expectations are just too high and they've been too high for too long. I think they're already back to reality."

Dorsey considers her investing style moderately conservative, and says she has recommended the larger blue-chip stocks for most of her clients, but doesn't see any havens in the market right now.

"For most people it's a good idea of taking a break from watching TV and reading [about the market] constantly and think long term," says Dorsey. "Of course, when this is over, it's a good time to step back and reassess your risk tolerance."

Shy Away From Highflying Tech

Noel W. Reitmeister, certified financial planner at A.G. Edwards & Sons in Merrillville, Ind.:

Reitmeister says he's been telling clients to weed out overvalued stocks since the end of last year and telling investors to re-evaluate their portfolios to anticipate a potential stock market selloff. That advice is paying off right now.

"We've been telling our clients, do not expect what you've been getting and to very actively, pro-actively, watch your portfolio and make sure you have the right things in the right places," says Reitmeister.

Reitmeister has been encouraging his clients to lighten up on their equity positions if they've become too large of a chunk of their portfolios. While he doesn't think anything is a safe haven, he does recommend more defensive plays like utility or drug companies rather than highflying tech stocks.

That being said, Reitmeister points out that every investor has to take his or her time frame into consideration. A 32-year-old rocket scientist who's making a lot of money can afford to take a few more risks than an elderly person looking toward retirement, he says.

"You can't draw any conclusions. You've got to look at the individual," says Reitmeister.