How to Invest during a Recession

We are now finishing the 16th month of the recession, which began in December 2007, according to the National Bureau of Economic Research. Not only is this a long recession, but it's also a severe one, marked by painfully high levels of job losses, a sharply reduced credit flow and a drop in the value of many investments. Still, despite all the bad news, there are valid reasons to believe that brighter days lie ahead. But you don't have to wait for things to turn around before taking steps to help your own financial future.

Here are some actions to consider:

• *Don't cut back on your 401(k).* During difficult economic times, it's hard for many people to assume their jobs are safe. But if you are fairly confident your employment situation is secure, continue investing in your 401(k) or other employer-sponsored retirement plan. The tax advantages of these types of plans — not to mention the employer's match, if one is offered— make them ideal savings vehicles for retirement. Of course, your plan probably has taken a hit over the past year, but that's the case for many investments. If you've chosen a good mix of investments, your plan should recover at some point.

• *Diversify, diversify, diversify.* Generally speaking, it's not a good idea to tie up more than 5 percent of your portfolio in a single investment. Spread your investment dollars among a wide range of stocks, bonds, certificates of deposit and other securities. For a rough idea on how well you've diversified, ask yourself: "If the value of a few of my stocks and bonds declined and didn't recover, would it be extremely painful for me financially?" If the answer is "yes," you probably need more diversification. Of course, diversification by itself cannot guarantee a profit or protect against loss, but it can give you more chances for success and reduce the effects of volatility on your portfolio.

• *Think long term.* Your investments may have lost 30 percent to 40 percent of their value from October 2007 to the present — which may seem like a long time. Yet quality investments often need much longer periods to show significant growth. So while it can be painful to endure short-term losses, you need to develop the discipline to hold your investments for many years.

• *Don't reach for high yields.* When the stock market is down, many investors turn to bonds that offer high yields, reasoning that bonds are always safer than stocks. Don't be fooled into this line of thinking; high-yield bonds mean high-risk bonds. If the issuer defaults, you could lose your principal. Stick with investment-grade bonds.

• *Look for opportunities.* Instead of avoiding the financial markets, look for good investment opportunities. Because investment prices have fallen so much, your dollars can now buy more shares. Historically, buying shares at lower prices has often led to higher returns over the long term. If you're receiving dividends, now is an especially good time to reinvest them.

You probably can't avoid all the negative effects of the recession. But by following the above suggestions, you can help avoid getting thrown off track on your journey toward your financial goals.

This article was written by Edward Jones for use by your local Edward Jones Financial Advisor.

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