Dollars & Sense

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Invest in tomorrow and sleep well tonight

by Erica Sandberg

Never before has the adage "Hope for the best, expect the worst, and you will be prepared for anything" been a more prudent investment philosophy. If you were burned in recent stock market fires, the temptation to extract the remainder your nest egg and hide it under your mattress is understandable. After all, watching the value of your life savings wildly fluctuate (or worse, steadily plummet) is both depressing and nerve wracking. So what can you do to gain equilibrium? Apply the principles of the above maxim to your investment approach and you won't have to sleep on your money to protect it.

Hope for the best. Focusing solely on the negative may result in total investment avoidance – often an emotional reaction rather than a pragmatic one. Remain positive and make wise choices by understanding your personal risk tolerance. If you feel uneasy with a growth fund but buy it because of the potential for high return, ask yourself if the anxiety is worth the possible payoff. Remember – your happiness today is as important as your potential happiness tomorrow.

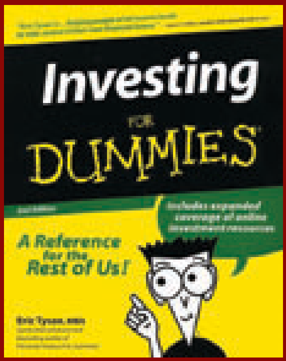
The attempt to totally avoid risk can be as detrimental as making a "risky" investment. Keeping all your money in a "safe" but low interest savings account to protect your principal is essentially the same as the mattress fund. Risk-free? Think again. Inflation eats into your savings faster then you think, and if your interest isn't keeping up, your base dollars will lose value. And if that money is supposed to be going towards your retirement, you could be losing much of what you will rely on when you most need it.

One of the best arguments for optimism is history itself. Over time, the stock market has averaged double-digit returns. Being *rationally* positive is an integral part of sensible investing.

Expect the Worst. Sounds negative? Try pragmatic. When the market was consistently providing sky-high profits back in the late 1990's, many investors expected the good times to roll forever. The inability to *imagine* a bust is dangerous. Carefully examine your portfolio and take the "what if" test. Ask yourself: "what if the world no longer needs X, what would it do to this company? " and "How much would it affect me if I lost some or all of my investment?" It's a good reality check for the overly confident investor.

Diversifying your portfolio – minimizing risk by dividing investment funds among a variety of securities with different risks and rewards – can also prepare you for the worst. Choose a mutual fund with healthy asset allocation mix rather then one overweight in a single sector. Want cheap and easy? Index

Recommended Reading



Investing For Dummies by Eric Tyson, MBA

The "For Dummies" series does it again – making a complicated, sometimes intimidating subject clear, interesting, and thoroughly enlightening.

Written by Eric Tyson, this book begins with the fundamentals of investing, then covers stocks, bonds, mutual funds, real estate, and small business options. The chapter on the function and machinations of Wall Street is a particularly illuminating. Mr. Tyson examines and provides advice about the psychological aspects of buying and selling investments, as well as how to gauge your own personal risk tolerance.

No hype, all straightforward information, **Investing for Dummies** will make you an investment *smartie* in no time.

*Also check out **Personal Finance For Dummies** and **Mutual Funds For Dummies**, both by Eric Tyson.*

funds provide a well-diversified, inexpensive exposure to the stock market.

Don't forget your emergency fund. Three to six months worth of expenses in a liquid account is recommended for most people. Having that security is truly preparing for the worst – loss of job, reduced hours, or a medical crisis.

And you will be prepared for anything. Of course you can't plan for absolutely everything in life – that's what makes it exciting! But by making sound investment choices, thinking long term, and being monetarily and emotionally equipped for potential loss, you will gain peace of mind. Still want to tuck your savings under your mattress? Well, a few bucks won't hurt…

Top Ten List of When NOT to Invest:

1. You have no money for food, rent, or transportation
2. You take investment advice from a late night TV infomercial
3. You trust a fund manager who says moving your money around as much as possible is a *good* thing
4. You believe in the investment potential for cute plush toys stuffed with beans
5. You are delirious with fever
6. You are desperate for fast cash
7. You buy bonds because it reminds you of James Bond
8. You think "buy low and sell high" is all the investment wisdom you need
9. You choose your investments by playing "hit the stock page with a dart"
10. You do no research and let someone else make all your investment decisions

"Not everything that can be counted counts, and not everything that counts can be counted."

– Albert Einstein (1879-1955)