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BUSINESS

Remember stocks still carry risk

• Figure out what you can lose and invest

STAYING AHEAD

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Since you don't know whether stocks are going to rise or fall, the one smart thing you can do today is limit your investment risk.

How much can you afford to lose of the money you've got in stocks? If you haven't been in stocks, how much can you afford to invest for a better long-term return? This should always be money you can afford to do without for a while. But few investors make this calculation because "the public is not aware of any risk in stocks," marvels Peter Bernstein, author of *Against the Gods: The Remarkable Story of Risk* (John Wiley & Sons, $27.95).

That's the dangerous legacy of the '87 Crash and the '90 Crashette. Both markets "proved" to the innocents that downturns in stocks are brutal but brief, and sure to be followed by incredible gains in price.

Today we hold this truth to be self-evident: If we stay in stocks we will retire rich.

That hypothesis
wrong, if you stay t
enough. Over rollir peri-
ods, the stocks in S &
Poor's 500-stock av
lost money since 1926
dends reinvested), according to the market research firm, Ibbotson Associates in Chicago.

Over 10-year periods, they lost money only 3 percent of the time. The further away your retirement, the safer stocks appear to be.

Perversely, however, the longer you stay invested, the riskier stocks become. At 45, you've got an apparently "safe" 20 years ahead, if you plan to retire at 65 and change your stock holdings to something more conservative.

But at 60, with retirement five years away, your chance of losing money by 65 has climbed to 10 percent – a number clearly visible on the worry screen. In the years between 60 and 65, your risk of loss rises rapidly.

What's more, we cannot possibly foresee our lives in 20 years.

In the stock market, years of high returns generally are followed by years of low returns, yielding an average payoff of something in between.

We have no idea what that long-term average will be. The stocks in Standard & Poor's 500-stock index have yielded 10.9 percent annually since 1926, 12.4 percent since the end of World War II and 17.6 percent since 1982. If average investment returns turn out to be something less than 17 percent, we'll face some droopy years ahead – although there's no telling when.

For that reason, you need to assess your financial position. Among the rules of the road:

• Don't hock the farm. Divide your life into a safe zone and a zone at risk. Homes fall on the safe side. A classic bad decision is to borrow against your home equity and fling the proceeds into stocks. Even if it works, it's wrong because you took too big a chance.

• Don't overinvest. If you have any money in stocks that you're going to need within the next five years, get it out right now, says Michael Stolper, whose San Diego firm finds money managers for people of wealth.

Retirement funds can stay in stocks. Real money needs to be more at hand.

• Don't stake everything on stocks. Today's incredible passion for the easy gain could turn into "the crack of doom," says market strategist Raymond DeVoe.

• Prepare for a sudden, unexpected market change. U.S. stocks – the obvious worldbeaters now – looked like losers 15 years ago. Fifteen years from now, you might be glad you bought foreign stocks or even bonds.

Jane Bryant Quinn, a syndicated columnist, writes about personal finance issues every Tuesday.