THIS WOMAN *can make you* Rich

Your portfolio plunged in 2008. Fox Business Network host **Alexis Glick** will show you 8 ways to turn it around in 2009

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A lot of incredibly smart, well-educated people never saw this one coming. Even the man who sets interest rates, Federal Reserve chairman Ben Bernanke—the number cruncher of all number crunchers—says he underestimated the size and magnitude of the subprime lending crisis that sparked a global wealth bonfire.

I had the privilege of interviewing two of the few experts who did see trouble long before we reached marshmallow-toasting time. In January 2007, Harvard historian Niall Ferguson said, "It is perfectly easy to imagine a liquidity crisis too big for the monetary authorities to handle alone . . . federal bailouts for the likes of Goldman Sachs may seem unimaginable to us now. But financial history reminds us that [unforeseeable] events do happen." Two years before that, Yale economist Robert Shiller predicted a terrifying real-estate meltdown. At a time when mortgage brokers were writing deals on car hoods, Shiller foresaw home prices plunging 40 percent.

We're only halfway there. And prices are still in free fall.

If this economic crisis has taught us one thing already, it's that way too many investors in all asset classes forgot one important word: *risk*. Maybe physicists should have been running the investment banks—after all, they know that when something skyrockets, eventually it comes back to earth. Men with Einstein-like intelligence have crash-landed investment banks and other big firms by forgetting that simple law. Average investors forgot it, too.

Like any prudent financial planner, John Marshall, cofounding partner of The Resource Group, in Glendale, California, doesn't simply ask clients how much risk they can stomach. He takes them through an exercise. Says Marshall, "I'll say, 'If you invest a million dollars and it falls to $800,000, what'll you say to me? Would your instinct be to call me? How would you feel? What if it went to $700,000? How about now?'" Even then, he says, clients respond differently than they do when the hypothetical turns all too real. There's no simulator for blowing a lot of money, apparently.

So the brokerage statement arrives, and for the first time ever, you'd rather open bills and junk mail. "Based on my experience working with clients, a loss in your account feels worse than a gain feels good," says Carl Beck III, a partner at Harris Financial Group in Colonial Heights, Virginia.

That's the bad news. But financial markets are resilient. Incredibly so. They've witnessed cold wars and world wars, assassinations, terrorist attacks on Wall Street itself, energy crises, and corporate meltdowns. The markets may have staggered in response, but they've always regained their footing and then advanced.

"I tell clients that if things don't come back, it'll be for the first time in history," says Marshall. "So either we have to be believers in history, or nonbelievers. And while it's true that this situation has unique characteristics, so does every major economic shock. 'It's different this time' is a very dangerous disposition to take as an investor." In other words, you don't want to be standing at the station when the train finally leaves.

So how are you supposed to invest if the pros can be so wrong? Here are eight things smart investors should do this month.

Cockiness CAN COST YOU MONEY

Many men underestimate risk precisely because they think too highly of their investing intuition. In a piece on investor psychology in the *Journal of Portfolio Management*, coauthor Daniel Kahneman, Ph.D., a Nobel-winning economist, argues that when an investor is "99 percent sure" about something, his probability of being right usually falls closer to 85 percent.

Kahneman found that meteorologists and track handicappers have the best crystal balls, for two reasons: They constantly need to make predictions based on probabilities, and they receive feedback that's "swift and precise." So if you insist on actively trading stocks, run a practice portfolio for a month first. See if you're any good before putting real money on the line. Better yet . . .

Buy and hold—BUT ONLY THE RIGHT SECURITIES

The trick is to buy and hold a diversified portfolio filled with quality investment vehicles. The rich are the people who are buying stocks and bonds, not selling them, when panic strikes. They're also not timing the market or day trading, for the most part, which is another mistake many men make. A study in The Quarterly Journal of Economics found that men trade 45 percent more than women do, costing them nearly a full percentage point of return over the course of a year. With money-market funds yielding a paltry 2 percent to 3 percent a year (or less), that matters a lot, especially when the interest is compounded over time.

The question, of course, is what constitutes "quality" in an age when money-center banks are going belly-up and the Big Three automakers fund their operations by holding out tin cans. Free cash flow is critical now. Pay attention to how fast a firm is burning through cash and how much debt it possesses. Can't make heads nor tails of financial statements? This way to the mutual-funds aisle, fellas. There's no shame in that.

Shield YOUR STOMACH

Only a roller-coaster enthusiast would love the current market. The volatility is made even more gut-wrenching by the 24-7 presence of financial news on the Internet and on TV channels like the one I work for, Fox Business Network. Once upon a time, investors opened the newspaper to find out how their shares performed. Now you can't walk into a deli without looking up at a TV screen with green and red arrows taking the Dow's pulse in real time.

The antidote for a queasy stomach? Invest for the long term. Is that a sure bet? No, but a proven track record suggests future success. The S&P 500 has returned 9.8 percent annually since 1923. If someone had invested $100 on your behalf that year, you'd have nearly $300,000 today.

SMALL LOSSES WON'T KILL YOU. *Big losses just might*

Warren Buffett's first rule of investing is to not lose money. His second rule: "Don't forget Rule No. 1." Or, as the saying goes, "The return on your money is less important than the return *of* your money."

"There's this old wives' tale that young guys have all the time in the world to make up for aggressive risks that don't pan out," says J.J. Burns, founder of the wealth-management firm J.J. Burns & Company. "But I don't think most people understand how long it takes to recover from a loss." For 20- and 30-year-old guys, falling behind can beget even more risk taking in order to make up lost ground. That's why you'll also see a lot of men average down . . . and average down . . . into oblivion. Imagine if you'd kept buying AIG as it plunged to under $2. Yikes. Place a stop-limit 15 percent below your initial investment, and let it go if the share price strikes it. Better to forgo dinner out than your kid's college hopes.

Spread YOUR WEALTH

The best way to cover yourself is to diversify your assets. Spread your investments across a broad spectrum that includes commodities, precious metals, real estate, and proxies for cash (Treasuries, certificates of deposit, and money-market funds, for example), as well as stocks and bonds. That way, when a flood hits, something will stay dry. Burns recently sold some of his clients' T-bonds—your grandmother's favorite investment vehicle—for a *26 percent* annual return, a windfall from the flight to quality by spooked market players.

"It varies by individual, but I like a 60-20-20 asset-allocation model: Stocks are 60 percent, bonds are 20, and the remaining 20 percent comprises other assets," says Burns.

EARN *while you wait*

"Dividends are a fundamental part of our investment philosophy," says Beck. Be careful, though. With money-market funds yielding paltry amounts, the natural instinct is to seek out massive dividend-paying stocks. But the dividend might be juicy only because the share price fell off a cliff—meaning the payout won't be sustainable for much longer as a result.

The best way to judge the health of a company's dividend is by looking at how the firm deploys its free cash flow. Historically, has it used this excess cash to raise the dividend, or has it opted to buy back shares in the company itself? Look to the bond market for cues as well. If a company's bonds are trading at 75 percent to 80 percent of par value, a credit-default risk is priced in. So watch out.

Don't forget BONDS

Sexy investments? No. But many bonds are cheap at current prices. Specifically, investment-grade corporate debt (AAA rating) is yielding historically high rates. If you think companies such as Caterpillar and Target aren't going under any time soon, you can scoop up their long-term notes yielding around 10 percent! General-obligation municipal bonds—the safest kind—are yielding around 6 percent, tax-free. These are returns we used to seek from stocks, so the rules about avoiding bonds when you're young don't apply right now.

There's the safety factor, too: If we've learned one thing through this financial crisis, it's that equity holders (stockholders, that is) are the first to lose out when a company fails, while bondholders get paid first. If the Federal Reserve is willing to purchase paper from investment-grade corporations in the newly created Commercial Paper Funding Facility, why wouldn't we?

> "If we've learned one thing, *it's that stockholders are the first to lose out when a company fails,* WHILE BONDHOLDERS GET PAID FIRST."

DON'T REGRET YOUR DECISION *—twice*

We've all thought, *Why didn't I sell 6 months earlier when I was down a little bit? Now I'm down a lot.* But as Beck says, the door of regret swings both ways. If pessimism and fear overwhelm you and you decide to cash out and sideline your money, paper losses become all too real. What's more, if the stock market takes off without you on board, you'll be overwhelmed with regret a second time.

"It takes incredible confidence and discipline to invest in a down market," says Carl Sorboro, chief operating officer at Dawson Wealth Management, in Cleveland, Ohio. "When you're afraid, it's difficult to make good decisions." If history teaches us one thing, however, it's that buying when everyone else panics can make you a rich man. ■

Dream Big, *Sleep Easy*

When the stock market seems nightmarish, safer havens still exist. Consider these four alternatives to shoving your money under a mattress.

1. Gold

The yellow metal does well during periods of deflation *and* inflation. And all that money Uncle Sam is printing now to prevent the former will produce the latter eventually. The simplest way to play gold: an exchange-traded fund (ETF) that buys bullion on your behalf. Or you can invest in the producers. Gold-mining shares tend to move more sharply than gold itself, and they've lagged recent price changes in the underlying metal. This gap should close or at least narrow.

RECOMMENDATION iShares COMEX; Gold Trust; (ticker symbol IAU); Yamana Gold (AUY)

2. Municipal bonds

If you're in a high tax bracket, these may be just the ticket. Some high-quality municipal bonds are paying as much as 6 percent, tax-free—equal to 10 percent on a taxable bond. Select carefully, though, because a host of states and municipalitie may be next in line behind banks and automakers.

RECOMMENDATION "I wouldn't buy a California housing-oriented bond," says J.J. Burns, founder of the wealth-management firm J.J. Burns & Company. "But I'd look at a New York City general-obligation bond. The city has to balance the budget in order to pay it."

3. Corporate bonds

Ironically, the credit crunch has made these formerly stodgy instruments hot stuff. Great companies suddenly need to pay you, Mr. Bondholder, more money to take their paper. That expense will crimp their earnings. And if the stock drops 15 percent next quarter as a result? Sit back and smile. You're collecting 7 percent to 9 percent a year on your bonds while assuming virtually no risk (assuming you hold the bonds to maturity).

RECOMMENDATION Burns likes the corporate debt offered by Caterpillar and Kraft, among others.

4. Managed-futures funds

These funds can go long or short on stocks, bonds, currencies, and commodities to produce maximum returns while hedging their risk. The Rydex Managed Futures Strategy is up nearly 12 percent during a year in which the S&P 500 is down 40 percent. And unlike bear-market funds and "short" ETFs, which stand to lose big when the markets rise, a well-run managed-futures fund should also prosper during a bull run. It's a nice place to park 10 percent of your portfolio.

RECOMMENDATION Rydex Managed Futures Fund (RYMFX)

"The most severe war injuries are often those you can't easily see."

JEFF RIEDEL

Brian Boyé

Looking good and going fast have a lot in common.

"There are many references to speed this spring, from motorcycle-inspired leather jackets to sporty watches that take their cues from jet and race-car instruments," says *Men's Health* Fashion Director Brian Boyé, who found inspiration in speed for this month's *Guide to Style*. His favorites for men who want to look great on a budget: the three-piece Perry Ellis suit on page 26, and the lightweight DKNY trench coat on page 32. Each is priced under $500.

Jeff Riedel

War images are usually jarring and graphic.

But "the most severe war injuries are often those you can't easily see," says photographer Jeff Riedel, who captures the suffering of five survivors of the Iraq war in "The New Unknown Soldiers," on page 126. "Their quiet suffering has been overcome by the desire to survive and get better." Riedel has shot for *Rolling Stone*, the *New York Times Magazine*, and *Outside*.

Alexis Glick

These days, smart investors ask for advice.

"It's just like going to a doctor," says anchor Alexis Glick, a vice president of business news for the Fox Business Network. "First you get the physical and next the diagnosis. Then you go for a second opinion. You should never be too proud to ask for help." In "This Woman Can Make You Rich," on page 122, Glick taps financial experts who saw trouble looming, and crafts a plan to help you regain confidence in your investments.

Drake Bennett

Actor Ryan Reynolds knows how to stay grounded,

even though he happens to be married to Scarlett Johansson. "He reads a lot of Philip Roth. He's politically engaged, but not in just a knee-jerk way," says writer Drake Bennett. In this issue, Reynolds talks about his latest grassroots effort: He ran a marathon last fall to raise money for Parkinson's research. Find out why in "What's Your Motivation?" on page 100.