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JOURNAL REPORTS: RETIREMENT

Tips for Tweaking Retirement Accounts After the Selloff

Should you really do nothing with your 401(k)? Not necessarily

One tactic to make selling less urgent in a time of volatile markets is to reroute earned interest or dividends that are normally automatically reinvested.

PHOTO: SONIA PULIDO

By Michael A. Pollock

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Health experts urge people to wash hands, stay home and avoid touching their faces. And financial experts caution against touching a nest egg after stocks have plunged.

But when the market is down a lot, does that really mean doing *nothing* with retirement assets?

The answer depends on circumstances, of course. Some people must raise cash to replace lost income. In such cases, it is important to first sell assets with the least appreciation potential, such as fixed-income.

Others may be fortunate to have extra funds that could be used to buy stocks at bargain levels.

Still, for them, being selective also is crucial.

Things to consider for those thinking about tweaking investments, whether out of necessity or as part of a careful strategy:

1. Whether to sell, and what

As the economy craters, many people have lost their jobs.

But those who need to make up lost income should think twice about selling equities, says Joe Lucey, an adviser in St. Louis Park, Minn. Historically, stocks have performed more strongly after big downturns than at other times, and a rebound could occur well before a full economic recovery.

One tactic to make selling less urgent is to reroute earned interest or dividends that are normally automatically reinvested, says Michael Macke, owner of Petros Estate & Retirement Planning, Jacksonville, Fla. While this is a good time to reinvest dividends, anyone who urgently needs cash could instruct a brokerage account to channel that money into a cash account instead, he says.

If someone must sell, the first choices should be bond funds, individual bonds close to maturity or stocks that have held up the best. Despite their declines, stocks that have fallen a lot may have more upside potential than others, says Michael Lackwood, founding principal of Spring Delta Asset Management in New York. Mr. Lackwood also suggests, rather than dumping a lot of assets all at once, selling just enough to cover expenses one month at a time until markets recover.

2. Smart cash management

Since the Federal Reserve slashed rates in March, bank savings rates have fallen significantly. But a few banks still pay more than average. Bankrate.com recently listed 16 banks offering rates of 1.5% or higher.

There are no guarantees that those rates will stick, so investors who can afford to do so might lock in better rates by buying bank certificates of deposit, says Greg McBride, chief financial analyst at bankrate.com. To manage future cash needs, an investor could create a ladder of CDs that mature in consecutive years.

Be cautious about higher-yielding-income alternatives, says Doug Cohen, who heads the New York office of Athena Capital Advisors. Although short-term bond funds may offer more attractive yields, many of these funds hold securities with lower credit ratings. Even though

Fed moves have steadied markets, "there still may be risk there," Mr. Cohen says.

3. The surprising risks in bonds

Perhaps seeking insurance against a stock downdraft, investors began flocking to bond ETFs some time ago. Any funds that own debt of companies with lower credit ratings aren't the best choice for investors now, says Dennis Notchick, an adviser in San Diego.

Even bonds rated triple-B, the lowest rung of the investment-grade ladder, could be vulnerable to downgrades, he says. And market expectations of a downgrade could trigger a double-digit drop in principal value in a bond, Mr. Notchick says.

To moderate credit risk, Mr. Notchick suggests the iShares iBoxx $ Investment Grade Corporate Bond ETF (LQD), which recently yielded above 3% and had about half of its holdings in securities rated single-A or higher.

For tax-exempt income, Mr. Notchick likes iShares National Muni Bond ETF (MUB), which focuses on investment-grade securities and yields more than 2%.

4. Dangers for dividends

Dividend-paying companies traditionally were considered among the strongest financially. But with the economy plunging, even some dividend stalwarts may be forced to slash distributions to conserve cash. Another concern, notes data provider CFRA, is that corporations that receive emergency federal loans could be prohibited from paying dividends for an additional year after they repay the money to the government.

If an investor lacks the skill to analyze financial statements, a basic way to gauge dividend prospects is to look at a stock's yield—the annual per-share dividend divided by share price. Yield rises as share price declines, and yields much above mid-single digits could signal investor concerns about a dividend cut, says Greg Powell, deputy chief investment officer at Miller/Howard Investments, Woodstock, N.Y.

Todd Rosenbluth, ETF and mutual-fund research head at CFRA, says ETFs that might provide more dependable dividends are Wisdom Tree U.S. Quality Dividend Growth Fund (DGRW) and SPDR S&P Dividend ETF (SDY). But it is more important than ever for an investor to look at what an ETF owns and consider reasons for caution, Mr. Rosenbluth adds.

5. Pointers for stock pickers

It is tempting to go bargain-hunting when stocks are trading at big discounts. But in the current

muddled situation, choosing individual stocks could be challenging. Some people might be better off in a broadly diversified fund, professionals say.

Aside from the risk of mistiming a purchase, there is potential for choosing a strategy that may have worked in the past but won't fare as well as the market begins a whole new cycle, says Athena's Mr. Cohen. And beware of companies carrying heavy debt loads, adds Eddie Perkin, chief equity investment officer at Eaton Vance. Companies that lack access to lending markets may have to issue more equity, causing prices of their shares outstanding to plummet.

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Still, while stocks are lower, rebalancing can be "a winning strategy," says Joe Conroy, owner of Harfordcq Retirement Planners, Bel Air, Md. If the equity allocation has fallen more than 5 percentage points below a person's target, it could make sense to add stocks.

Those who don't want to do detailed research could fall back on this simple approach, advisers say: Just buy more of any high-quality stocks a person already owns that are trading at lower levels.

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