COMMENTARY:
Ask the Expert by Walter Updegrave

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Invest now? Or in dribs and drabs?

Think you'll get lucky by investing at lower prices later in the year? It's a loser's game.

By Walter Updegrave, Money Magazine senior editor
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NEW YORK (Money) -- **Question:** Each year my wife and I contribute the maximum to our retirement accounts. My question concerns the timing of our investments. Are we better off spreading out the money we invest over the entire year - or should we invest the money as soon as we can? - Eric, Seattle, Washington

Answer: Remember those scenes in old World War II movies where an officer would walk into a room to go over the plan of battle for an upcoming campaign and put his fellow soldiers at ease by telling them to "smoke 'em if you got 'em"?

Well, there's an investing corollary for this: "Invest it when you got it."

Or, to put it another way: Don't try to outsmart the financial markets by guessing whether you would get a higher return by putting your money to work immediately or by holding off in hopes of buying in at a lower prices.

Of course, this strategy won't always lead to the highest gain. Clearly, if stocks tumble, then you would have been better off waiting.

Indeed, that's what lots of investors are wondering now, given the wild swings the market has been taking in recent weeks. Invest now or wait, figuring prices will fall and be more attractive later on?

Investing plan in action

Unfortunately, without the benefit of a crystal ball, no one can say whether you would come out ahead by investing your money now or later. We can, though, take a look at what would have happened in a year like 2002, when stocks generally trended downward.

If you had invested $12,000 in the Standard & Poor's 500 index all at once at the beginning of January in 2002, you would have ended the year with just under $9,350.

If, on the other hand, you had invested $1,000 each month, you would have ended up with almost $10,700 - and that doesn't include the interest your money would have earned while it was sitting in a money-market fund until you moved it into stocks.

But in 2003, stocks generally trended up. Investing all $12,000 in stocks at the beginning of the year would have left you with just under $15,450 at the end of the year. If you had parceled out $1,000 a month, you would have ended up with about $14,300. Even if you threw in interest your money would have earned while waiting to go into stocks, you would still be behind by a thousand bucks or more.

The problem, of course, is that while it's easy to say today with the benefit of 20/20 hindsight which strategy would have worked better in 2002 and 2003, we don't know ahead of time what course stocks will take.

The world is full of people who can tell you they were quite certain that stock prices were ready to fall off a cliff in early 2000. But did they invest that way at the time? And even if they did, were they able to predict when stock prices would bottom? And did they get in before prices took off again? Only in their dreams.

So I say don't waste your time playing this guessing game. Invest the money when you've got it.

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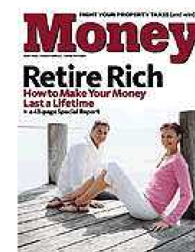

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As a practical matter, you'll probably come out ahead over the long term with this approach anyway, since the stock market moves on an upward trend much more often than a downward one.

But the real issue for you and other investors isn't timing your investments. That's a diversion. What's most important is making sure you've got the right mix of assets in your retirement accounts and that you're investing new money in line with that mix.

After all, it's the blend of stocks and bonds in your portfolio more than anything else that determines both the returns you earn over the long term and the riskiness of your portfolio. So setting an appropriate stocks-bonds mix - one with enough stocks to provide the gains you need to build a large nest egg, but with enough bonds to provide at least some protection during market setbacks - is your first order of business. (More on how to do this, click here and here.

And once you've got that mix down, then any new money you add to your retirement portfolio should be divvied up the same way.

So let's say you've determined that the right stocks-bonds allocation for you is 70% stocks and 30% bonds and you've just gotten a $10,000 bonus. Well, instead of agonizing over whether you might be better off investing it gradually, just invest the whole ten grand in now, but do so by investing $7,000 in stocks and $3,000 in bonds.

The same approach, by the way, should apply to the smaller amounts of money going into your 401(k) each pay period. If you've decided that, given your age and risk tolerance, 70% of your 401(k) assets should be in stocks and 30% in bonds, then stipulate that 70% of your new contributions go toward your stock funds and 30% toward your bond funds.

How flexible are you?

- If I miss my goal by a year or two, I'll still be okay.
- I can't afford to miss my target.

During market sell-offs, do you

- See an opportunity to buy more stocks
- Sell stocks thinking things will only get worse
- Do nothing

Calculate

When you think about it, this strategy makes sense whether you're dealing with large sums or small ones. After all, once you've set an asset mix, you've essentially said that this blend of stocks and bonds appropriately reflects the size of the returns you want to shoot for and the level of risk you're willing to take.

So why should the prospect of investing new money change anything? It shouldn't. If you've gone to the trouble of creating an investing strategy (which is what an asset mix is) then you want to follow it, right? Isn't that the point?

The only exception might be in cases where you're dealing with so much new money (a $1 million inheritance, say) that your entire financial picture has changed so radically that perhaps you ought to re-think your asset mix.

But aside from such rare instances, your goal should be to get your money invested, and invested in a way that reflects your long-term investing strategy. ■

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