

INVESTING

What Do We Do Now?

AT a time when most investors are being told by their investment brokers to “just don’t open your statements,” Janet Briaud of Briaud Financial Advisors is greeting them head on. Janet has been warning clients since 2000 that returns on stocks would be terrible for the next decade. She has kept clients from experiencing major losses and her business has grown to the point that she is expanding into a new building later this year.

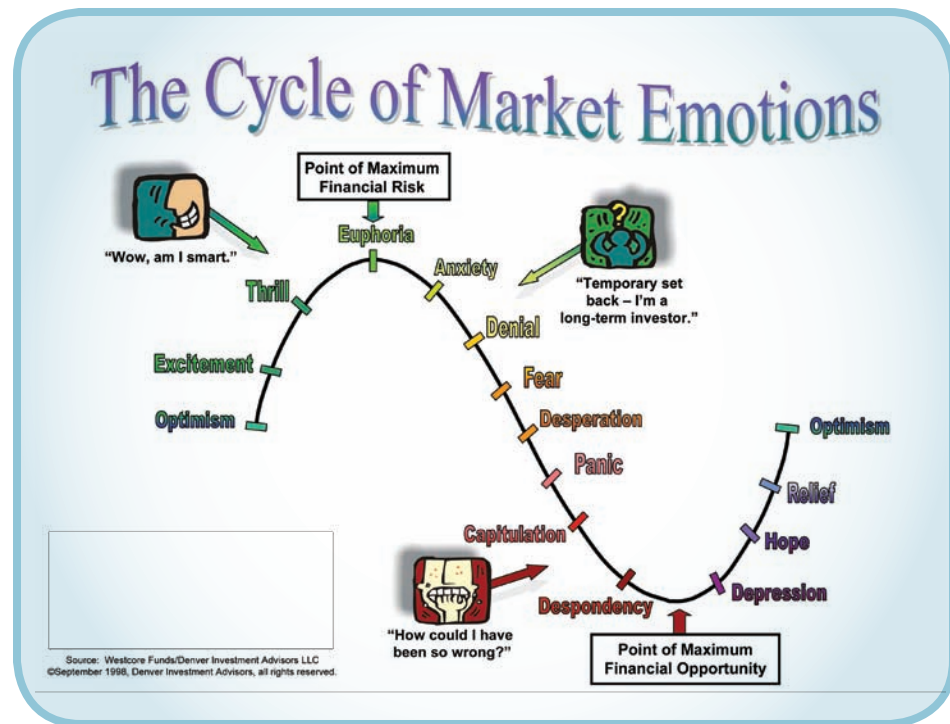
Unlike many investment advisors, Briaud operates on a fee-only basis. She and her staff work primarily with university professors and doctors, and she has won numerous national awards. From her Bryan office she advises clients all across the United States.

Briaud has been concerned about the over-evaluation in the stock market for several years. She started reducing the percentage of stock holdings in her portfolio as early as 1999 and she even lost some clients with her conservative approach. However, those who stayed with her and those who have come to her since then are happy now that their money is invested in assets other than expensive stocks.

My question to Briaud was fairly obvious: “What do we do now?” After the longest bull market in American history, most of



most of



us don’t remember a time when the market was seriously down. In Briaud’s view, we are in a long-term bear market in stocks that began in 2000. Historically, bear markets start with very high valuations and end with cheap valuations. At the present time, the market is fairly valued but not yet cheap.

“Near the bottom, investors will claim that they will never invest in stocks again. There will be maximum fear,” Briaud continues, “but it will offer the greatest opportunities. So one possible strategy is to have cash available for what could be the greatest buying opportunity of a lifetime.”

STEP 1 Pay off Debt

Until then, Briaud believes the first and possibly most important thing people can do now is to pay off debt. “If you have credit card debt or you owe on a car, pay that off as soon as possible. It is very difficult to make 6% or higher right now but if you pay off a car loan with 6% interest, you are absolutely making that much on your investment. That is equally true if you pay off a credit card with 16% interest. If you pulled your money from your investments when the market started to go down but don’t know what to do with it, pay off your mortgage. You will have the peace of mind of knowing that your home is yours, even if you lose out on a small tax deduction.”

STEP 2 Stop Spending

The second step is to stop spending, Briaud advises. We are in a deflationary cycle, where prices are going down and money goes farther. People are not in the mood to shop which forces prices down even further. Retailers are putting merchandise on sale as soon as

it arrives at the store. “In the ‘80s and ‘90s, people overspent. It was very rational to buy and buy, even to incur debt to do it, because prices were constantly going up. Now, with prices dropping and jobs uncertain, most people are hesitant to spend and are waiting to see what happens.” Briaud says building up savings makes good sense right now preparing people both for future investment opportunities or emergencies.

STEP 3 Look at Alternatives

Third, Briaud suggests that people look for other investment opportunities. High quality municipal bonds, investment grade corporate bonds and Treasury Inflation Protected Bonds (TIPS) are good buys at the moment. “They may be boring,” she explains, “but in deflationary times, you don’t have to make a lot of money to do well.” Briaud also offers some suggestions for a smaller portion of your investments in such areas as gold and energy. “Gold is sold by the share; you don’t have to literally own gold bullion,” says Briaud. She especially likes gold bullion as it often serves as insurance against catastrophic events. She has been purchasing gold bullion

since 2003 when it was at \$325 an ounce and it is now more than \$900 an ounce. Oil, now at \$40 per barrel, can be added to a portfolio through energy stocks, natural gas funds, or oil services funds. Since demand is increasing and supply is declining, Briaud expects energy to go substantially higher in the future. These can be intimidating areas for an ordinary investor and she recommends, “no more than 10% of your portfolio should be invested in these type of alternative investments.”

STEP 4 Evaluate your Timeline

Fourth, consider your stage in life. If you are nearing retirement and still heavily invested in stocks, you need to look at pulling back when the market is up. “Forget trying to get back to where you were, pick a number that you can live with and stick with it. If, for instance, the market reaches 9,000 again, that might be a good time to sell 10% of your stock funds. Take your proceeds and put it into safer investments; even holding it in cash will give you peace of mind.”

If you are younger, with at least 15 or 20 more years before retirement, you need to consider the fact that time is on your side.

“When everyone else is really disgusted and bailing out, that might be a good time to increase your equity allocation.” Briaud advises younger investors to consider a program of dollar-cost averaging into stock funds immediately. “If the market goes down, you will be buying more shares for the same money. Just be prepared for much lower prices so you don’t jump out again if markets go substantially lower.” A quick glance at “The Cycle of Market Emotions” (created by Westcore Funds/Denver Investment Advisors LLC) can help her clients recognize the emotional impact that changes in the stock market can cause, and to understand just where we might be in the cycle.

“The most important thing to remember,” Briaud says, “is that this is the winter of our economic season. You wouldn’t look at our brown grass and bare trees and assume that it will never get better. Spring will come. At some point, new innovation will be the catalyst for change and new opportunities.”

“This is the best country to live in,” Briaud believes. “Where else could a woman like me start out poor, major in sports management, then create a business in financial management and be taken seriously? And be successful? Only in America. We have hope for better things to come. I have confidence that we will come back better and stronger.”

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