Now is time to save and to invest, financial planners say

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I served on a panel last week with financial planners to answer questions from consumers on the financial crisis.

The Financial Planning Association of Dallas-Fort Worth decided to host such a program at Southern Methodist University's Cox School of Business because it wanted to help ease consumers' anxiety over the sick economy and the gyrating investment markets.

The association solicited questions from the public in the weeks leading up to the program, and the answers had several main themes:

• Save more.

• Pay off debt.

• Don't panic over the stock market.

• Use this time to search for good companies whose stock is now on sale.

One question to the planners was whether you should pay off as much debt as possible or save as much as possible and make minimum payments on all debt.

Yes to both, said Michael Busch, certified financial planner and president of Vogel Financial Advisors LLC in Dallas.

"If you haven't already, start with saving about three to six months' living expenses in cash to meet emergencies," he said. "That should be your first priority."

Then go after high-interest credit card and other consumer debt.

Don't tap your 401(k) to pay off credit card debt.

"Any time you raid your 401(k) early, you jeopardize your ability to accumulate enough for retirement," Busch said. "Withdrawals are taxable, which means you have to take out more than you owe on the credit cards to cover the additional tax."

And if you are under age 59 ½ , you will also owe an early-withdrawal penalty of 10 percent.

What's more, the money you take out of your 401(k) won't get a chance to compound over the years.

"If you have a credit card problem, you typically have an issue with spending more than you make," Busch said. "If that problem hasn't been completely dealt with, you will run your card balance right back up after paying it off, and then you have *both* a credit card problem *and* a retirement problem."

Don't get so obsessed with paying off debt that you stop investing, Busch said.

"A solid retirement plan builds in the ability to handle the inevitable down markets," he said. "The surest way to derail good planning is to make changes to your plan solely out of fear."

Investors who try to time the market by bailing out now, hoping to get back when stocks rebound, will miss getting in at the very bottom and riding stocks up, said Brian Bruce, director of the ENCAP Investments & LCM Group Alternative Asset Management Center at SMU.

"The market snaps back very quickly when it comes back," he said. "Don't sell out of the market just because it's painful to look at your 401(k) statement. You should take this opportunity to try and find good investments in this market."

But you should invest only in "well-run companies that are going to survive this storm," Bruce said.

There were very few places to hide in the market downturn. "Diversification still is the answer," said Lance Alston, a Dallas certified financial planner. "An undiversified portfolio would have exposed an investor to significantly more risk."

People nearing retirement should determine how much they will need to live on, and that should drive how they invest in today's market, Busch said.

Be careful not to get too conservative with your investments too quickly.

"With medical advances, people are often living 30 years or more in retirement," Busch said. "The risk that your investments don't keep pace with inflation can be greater than the volatility risk of down markets."