What's an investor to do? How to respond to the market meltdown

Sadly, financial crises are not new — or even rare. There have been major financial panics roughly every 20 years in our history. The economy and financial markets will survive, but ordinary investors still suffer the effects of harmful actions by Wall Street brokerage firms.

What should investors do — and not do — in response to the meltdown of the financial markets? We offer a number of suggestions.

Broker Responsibilities

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Without protection, ordinary investors would be at a distinct disadvantage when putting money into the stock market. Companies issuing stock and the brokers selling it often have access to better information about what the stock market is doing. The securities laws seek to correct this imbalance by imposing duties on market professionals: they must fully disclose information about investments, they cannot lie about securities, investments they recommend must be suitable and, in many cases, they owe fiduciary duties to act in investors' best interests.

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The law enables investors to recover from their brokers and brokerage firms if these standards are not met. While investors bear the risk of ups and downs in the market, they should not suffer financially if they are misled or buy investments that are not suited to their investment goals.

Investors need to actively protect themselves in response to the market crash of 2008. There is a saying on Wall Street: "A bull market covers a lot of mistakes." This means that brokerage firms commit a lot of errors, which are more likely to be exposed when the market drops. Investors need to be vigilant in ensuring that they do not lose money as a result of those mistakes.

What Investors Should Do

There are some actions that investors should always take, whether the market is doing well or not: open all mail from your brokerage firm, carefully review all purchase confirmations, read and retain copies of all brokerage statements and make notes of everything your broker tells you.

In times of market disruptions, like these, investors should take special care with their investment holdings. First, be assertive over your account; understand what you own and what is being recommended. Guard against any recommendations to sell certain investments and purchase others that are similar. The broker might be trying to earn extra commissions. On every purchase and sale, ask what commissions will be charged.

Second, now is a good time to reevaluate the contents of your investment portfolio. Make sure your investments are diversified and properly allocated. Are your investments diversified among a variety of stocks in different industries, so the failure of one company or a collapse of one industry will not devastate your investments? Are the risk levels of the stocks you own consistent with your risk tolerances? Do you have the right mix of liquid investments (cash, CDs and money market funds); large, diversified companies; income-producing investments; and growth stocks? If not, rebalance your portfolio.

If your investment portfolio is large or you do not feel confident evaluating it, consider paying an independent registered investment adviser to evaluate your investment holdings. This can provide a second opinion about the strategy chosen by your stockbroker and give you comfort that you are well positioned for the future. *Caution: make sure you buy only investment advice; avoid any adviser who pressures you to transfer your investments to the adviser.* If problems are revealed, talk to an attorney.

Third, look at strategic buying and selling. With the end of the year coming up, does it make sense to harvest some tax losses, assuming you had capital gains earlier in the year? If you are still young, have higher risk tolerance or have funds not needed for living expenses or retirement, consider using the current low stock prices to make additional investments. By buying when prices are low, you reduce the average cost of your investments and can take advantage of stocks that have become underpriced.

Finally, be patient. While the government cannot prevent market excesses (without adopting a socialist system), it can cushion us from the blows of market panics like this. Give the stock markets and the economy time to adjust to the rescue efforts being undertaken by the government.

What Investors Should *Not* Do

First, and foremost, investors should not panic. Resist the urge to sell everything and put all your money under your mattress. A recent television news story reported that sales of home safes are up 40 percent while bank deposits have dropped $40 billion during the past few months. Too often, a strategy such as this results in investors selling at the bottom of a market swing and missing out on large gains in the stock market, such as the 936-point gain in the Dow on Oct. 13.

Second, avoid making risky investments in an attempt to make up for your losses. This includes avoiding fraudulent investment schemes (double-your-money offers, Ponzi schemes

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and "guaranteed" investment programs), refraining from leverage (such as buying on margin) and staying away from complex investment products pitched by brokerage firms. Few people understand the workings of structured investment vehicles (interests in pools of corporate bonds), collateralized mortgage obligations or auction-rate securities. Even fewer should buy them. Warren Buffet gave good advice when he said investors should not buy anything they don't understand.

Third, stop punishing yourself. Do not look at the prices of your stock every day. Unless you are a day-trader, you bought stocks as long-term investments. It will take a long time for stocks to regain their value after this crash. Quit looking at the daily stock tables.

Fourth, do not sign any papers forgiving your broker for mistakes. If your broker asks you to sign documents saying that he or she fully explained the risks of investments or saying that your losses were caused by market forces, refuse to sign. Any broker asking you to sign such a letter is hiding something. Be suspicious of brokers' excuses or attempt to avoid responsibility.

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The economy will heal itself. As the economy improves, the stock market will rise again. When it does, most investments will regain much or all of their value. Those who did not panic will be rewarded. If the market crash reveals that your broker misled you or had you buy investments that did not match your investment goals, contact an attorney who specializes in securities cases.

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