February 17, 2009 - "I am 72 years old and my investments are dropping like a rock in the ocean. Would you please give me advice regarding this portfolio? All my money is with Vanguard and is as follows: Intermediate-Term Treasury Fund $22,246.00 Total Bond market Index 5,980.00 Total International Stock Index 21,764.00 Total Stock Market Index 89,934.00 IRA Total Bond market Index $100,946.00 I had the option for this year of not taking distributions out of my IRA, which I took. I have not been putting any more into investments, but have been spending money instead. I plan to put any future money into GNMA and/or CD's. Any advice you can offer me would be greatly appreciated. Thank you."

Answer: Let me give you my thoughts and then if you want to do more, you can email me with a phone number and I will ask Iris Brackett to contact you for follow up.

Let me make a few assumptions:

1. You have social security income - perhaps $22,000 annually
2. There is a pension that provides additional income - $25,000
3. You have no debt, and you own your home.
4. Generally, you are comfortable with your current income and do not need to use your investment portfolio to supplement your income.
5. Let's assume that you do not have Long Term Care Insurance.

Analysis: With these assumptions, your finances in the short term are secure. Your investment portfolios will be used on an as needed basis, and they act as your reserve emergency funds. The investment portfolio needs to grow but must be very secure because you have no alternative sources of income.

Current Portfolio:

$22,000 Intermediate term Treasury Bond Fund
$107,000 Total Bond Market Index
$90,000 Total Stock Market Index
$22,000 International Stock Index

Recommendations:

- Now is not a time to own equities. The economy will get a lot worse than it is today, before it gets better. This is true for the U.S. and for all other global economies.

- Sell the International and Total Stock Market Index funds. It is probable that the stock market is going lower in the months to come, causing you to lose money in these investments.

- Your Total Bond Market Index fund is a mix of Treasury bonds, Mortgage Backed Securities, and some corporate bonds. It has a dividend yield of about 4.75%. There is some risk to this portfolio if you must sell shares at a time specific. The price of the shares tends to vary by about 10% from high to low. That is your risk. The price of this fund is pretty close to a high right now.

- If you can avoid using this portfolio for a couple of years, and allow it to grow, I suggest that you move all of the money that comes out of the stock market, over into the GNMA fund - either the Vanguard or PIMCO GNMA funds.

- Then liquidate the bond funds and buy a ladder of fixed income maturities that will provide you with interest income for the next 3-4 years. You might want to keep a little money in CD's - 3 year maturity; then put the balance into other government guaranteed investments - government agency bonds and Mortgage backed securities.

- I bought some GNMA bonds this morning with a 4.5 year average life and about a 5.5% yield. You can generate about $10-12,000 of interest income with little or no risk by using this strategy. When the economy finally gains some growth traction, you can dollar cost average back into the stock market, using the money that you have set aside in the GNMA funds, for that purpose.

Today, the most important strategy is the preservation of your capital.

If you do not have long term care (LTC) insurance, this is probably the single most important factor determining your long term financial security. If you need LTC at some point, the cost will use up your investment portfolio very quickly. When you talk with Iris, you should ask her for more information on how to deal with this potential problem.

Hopefully, this will help provide you with some guidance.