ROB RIKOON
REAL MONEY

As stock prices continue their downward trend, I frequently hear two questions: "Is the market melting down?" and "When will my portfolio come back?" This raises an additional question of how much of an individual's asset should be in stocks at all.

We know a few useful things about stocks. Statistically, investors only have a 50-50 chance of getting back to where they were at the end of 2007 by 2020. However, that would require a 7% return compared to the 100 year average for stocks of 6% after inflation. Looking back 100 years, half the time stock returns are under 4% annually.

Most years, stock returns are either up or down 15% or more. No one knows what will happen in any particular year so if you plan on jumping in and out of the market in the hopes of timing the highs and lows, good luck.

When is investing in stocks a bet worth making? The critical factors are your personal liquidity needs, emotional fortitude and time frame. The emotional pain most people experience around their portfolios flows from the fact that market results are always highly erratic. Investors get into trouble when they are forced to worry if stocks will be up in price when they need their money out of the market.

So, if you have sufficient cash or short term bonds to cover any expected large expenses within the next few years and also for 12 months living costs should you lose your job, you can confidently move to the next set of considerations

The length of your timeline significantly impacts whether or not and how much to invest in stocks. If it is for retirement, college tuition for a new grandchild or a future down payment on a house for a teen ager, go for it. If your time line is less than a decade, consider taking money out after a sustained rally.

To get back to years of compounded stock returns of over 10%, starting price levels need to be at "bargain "levels. Are they today? No one knows but I expect more contraction in the overall market's valuation before we hit a true bottom.

Are stocks right for you? The answer depends on your tolerance for continuing wide swings in prices. If you find that you cannot stand the uncertainty of stocks, consider municipal (tax-free) and/or corporate bonds. The opportunity with these is to regularly collect bond interest at rates close to what stocks may return over the next decade. Remember that recovering your wealth will take patience, doing your research "homework" and a disciplined approach to both buying and selling.

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