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Can This Portfolio Be Saved?

Our Panel of Experts Offers Advice to a Couple That Took A Beating in the Bear Market

By JEFF D. OPDYKE

THE BEAR MARKET was not kind to Virginia Moehring.

At the height of the raging bull, in March 2000, she sat atop a portfolio valued at $180,000. She ate lunch in front of business TV shows—"stock symbols were my personal friends," she says. She bantered with fellow investors at cocktail parties around Sacramento, Calif., where she and her husband live. "It was an ego thing," says the 57-year-old Mrs. Moehring.

Today, her ego is bruised. After three years of mauling, Mrs. Moehring's portfolio has dwindled to just $80,000. Though it "churns her stomach," she faithfully logs on each day to her online brokerage account to tally the carnage. With holdings like **Bsquare** and **BioTransplant,** once valued at $2,185 and $1,300, respectively, now down to just $78 and $10, Mrs. Moehring says she has "just about given up on this portfolio ever being profitable for me."

Plus

A look at how three experts would invest this couple's money

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It has been far worse for her husband, David, an orthopedic surgeon and professor nearing retirement age. His portfolio, which represents the bulk of the family's retirement money, has been slashed to about $600,000 from roughly $1.4 million at the bull-market peak. Looking over the investments today, Dr. Moehring says that stocks like **Sirna Therapeutics** and mutual funds like **Munder NetNet** "are good for a lot of laughs." Or tears. His Munder fund was down 45% last year. And down 49% the year before. And down 55% the year before that. The result: He's putting off retirement for a few years.

With those sorts of returns splattered across many of their investments, Mrs. Moehring now wonders if their portfolios have any chance of getting back to even.

Millions of Americans are asking similar questions of their own investments these days. Throughout the year, we're going to ask readers to bare their financial souls, then we'll ask three financial advisers to weigh in with suggestions for repairing the damage to their portfolios.

The Moehrings face a familar litany of questions: Do you sell the losers and buy new stocks with the paltry proceeds? Do you keep those tech stocks you loaded up on and just pray they'll come back to life? Do you forget individual stocks altogether and go with mutual funds? And how do you allocate your money across stocks and bonds and cash so that you never again live through the horrors of the

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Thor Swift/Mercury Pictures

The Moehring Portfolio

Hers

Value at Market Peak: $180,000

Value Now: $80,000

Holdings: 50 stocks, largely technology and biotechnology holdings. Also has a smattering of blue-chips, including Pfizer, Home Depot and General Electric.

His

Value at Market Peak: $1.4 million

Value Now: $600,000

Holdings: Stocks and mutual funds in as many as seven different retirement accounts. Stocks include Dell, Intel and Cell Genesys. Mutual funds include a few Japan and Southeast Asia funds.

Can This Portfolio Be Saved? The Experts' Advice

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last bear market?

We asked planners from **Charles Schwab** Corp., Advest and Lubitz Financial to look at the Moehrings' portfolios and suggest ways to rebuild them. Two want the couple to put 40% of their assets in bonds or cash; a third envisions a much more aggressive portfolio that would keep 80% of their assets in stocks. All three agree the couple should shoot the dogs in their portfolio.

The planners also agree that the Moehrings are too concentrated in stocks, and in particular have way too much exposure to the extremely volatile tech and biotech sectors. Their international holdings, mainly through mutual funds, are too reliant on Asia and Japan. Finally, as they approach retirement, they need to build much bigger stakes in bonds and cash to prevent another bear market from destroying their dreams.

FAMILY FINANCE

Mrs. Moehring says she and her husband aren't risk takers, despite the tenor of their investments. This "is the portfolio of someone who got carried away in the boom," she says.

Getting Mrs. Moehring to change her ways could be tough, however. Despite the devastation in her account, Mrs. Moehring remains committed to the "adrenaline and excitement of stocks"—she owns 50 names in her portfolio now. She says she's entirely bored by mutual funds "because they move too slow and I don't have that much time left."

■ Rande Spiegelman

Vice president of financial planning at Charles Schwab & Co.

Mr. Spiegelman counsels Mrs. Moehring to sell about 25% of the stocks she owns, including those now valued at just pennies a share. Stocks such as **Applied Materials**, **Immucor**, **Costco Wholesale**, **Corning**, **Blue Rhino**, **Palm** and others all rate as "sells" in Schwab's universe. Nineteen other stocks, a bit less than half her portfolio, are lukewarm "holds." Only seven rate as a "buy"—**Ariba**, **Cisco Systems**, **Invitrogen**, **Intuit**, **Visx**, **Pepsi Bottling Group** and Oregon-based **Klamath First Bancorp**.

If Mrs. Moehring is committed to owning stocks, she could replace some of the laggards with better companies in the same or similar industries, Mr. Spiegelman says. That means dumping **Robert Mondavi** for **Church & Dwight** or **Proctor & Gamble**, and trading **Cima Labs** for **Bausch & Lomb**.

Dr. Moehring's money is more problematic. It's split across as many as seven different retirement plans, including an IRA, 403(b), 457 and Keogh account. Most have limited options. Mr. Spiegelman advises him to own the best funds in each plan. He can gauge the performance of funds available to him at an online site such as Morningstar.com. Dr. Moehring then should use his IRA and Keogh, both of which have wide flexibility, to fill in the gaps. So for instance, if he has a lackluster selection of international funds, he could use his IRA or Keough to buy top-performing funds like **Artisan International** or **Oakmark International**.

Broadly speaking, Mr. Spiegelman says the combined money in the doctor's accounts should be split 30% in large-cap stocks, 15% in small- and mid-cap and 15% in international stocks. Taxable bonds should make up 30%, and a money-market fund should take the final 10%.

Funds to consider include the **American Century Equity Growth**, **Janus Growth & Income** and **Loomis Sayles Small Cap Growth**. His retirement plans likely have bond funds that approximate the Lehman Brothers Aggregate Bond Index, "and that's not a bad way to go," Mr. Spiegelman says.

■ Linda Lubitz

Certified financial planner, Lubitz Financial, Miami

Ms. Lubitz says the Moehrings still need to "stretch for growth" if they're going to rebuild their shrunken portfolio. So she's advocating a more aggressive allocation—at least for their age—of 80% stocks, 20% bonds.

Even so, she says that Dr. Moehring badly needs more bond exposure to take some of the volatility out of his nest egg. Ms. Lubitz recommends the **Pimco Real Return** bond fund, one of the top-performing bond funds. She also says Dr. Moehring should dump the B-class shares he owns of various Munder and Aim funds in his Keogh. That's because B-class shares have substantially higher costs than A-class shares. Replacement funds to consider, she says, include the **Calamos Growth & Income**, **Dodge & Cox Stock** and **Bjurman Micro-Cap Growth**. When it comes to international funds, Ms. Lubitz says Dr. Moehring should sell Asia-focused funds like the **Fidelity Japan** fund and replace them with more diversified funds such as **American Funds Europacific Growth** or the **Dreyfus Premier Emerging Markets R** shares.

As for Mrs. Moehring's concern that mutual funds move too slowly, Ms. Lubitz says, "I suggest she look at her husband's Munder funds," which have plummeted. To keep the spice of individual stocks, but with considerably less portfolio risk, Ms. Lubitz says Mrs. Moehring should look at exchange-traded funds. Such funds, called ETFs, traded on the American Stock Exchange just like shares of stock, but generally track an index or a sector.

Mrs. Moehring should dump the dogs in her portfolio and redeploy the cash in investments like ETFs that mirror the Standard & Poor's 500, the Nasdaq 100 index and the iShares Russell 1000 index. For more excitement, ETFs also track everything from technology and health care to real estate, energy, biotech and a variety of established and emerging world markets. "Good investing," Ms. Lubitz says, "can be very dull."

■ Mitchell Kurtz

Senior vice president, Advest, Garden City, N.Y.

Mr. Kurtz says one key mistake Mrs. Moehring is making is holding on to get out even. "Biting the bullet," Mr. Kurtz says, "is painful, but rebalancing a portfolio may help going forward."

He suggests she dump most of her stocks except global and industry leaders like **Amgen**, Costco, Cisco Systems, **Walt Disney**, **Home Depot**, **General Electric**, **Pfizer** and similar names. With the cash she raises, he suggests she move into new stocks such as **Kimberly-Clark**, **Adobe Systems**, **Walgreen**, **Bank of America** and **Dominion Resources** that are all strong competitors in their respective sectors.

Mr. Kurtz says Dr. Moehring should clean house and put at least 30% of his money in bonds, such as the **Eaton Vance Government Obligations** fund, which owns high-quality, short-duration bonds. He also suggests the **ING Principal Protection VII** fund, which is designed to track the S&P 500 but guarantees no loss if the fund is held for five years. About 10% should be in cash, with the rest in equities, including the individual stocks of world-class companies such as **Wal-Mart Stores**, **Anheuser-Busch**, **Alcoa**, **PepsiCo**, **Automatic Data Processing**, **Gannett** and **Guidant** among others.

A more appropriate allocation that includes bonds and cash, Mr. Kurtz says, "will help with purchasing power and liquidity to draw from in retirement. With this kind of portfolio, he's golden. He'll enjoy his retirement."

If you'd like your portfolio to be considered for the next installment of "Can This Portfolio Be Saved?", or have other questions or suggestions, e-mail us at jeff.opdyke@wsj.com.

Professional Guidance

Here's what three planners suggest to straighten out the Moehrings' portfolios:

Charles Schwab & Co.
San Francisco

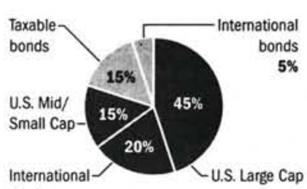
■ Asset Allocation

■ Suggested Mutual Funds:

- American Century Equity Growth
- American Century Small Company
- Janus Growth & Income
- Ameristock
- Loomis Sayles Small Cap Value
- Artisan International
- Oakmark International
- A bond fund based on Lehman Brothers Aggregate Bond Index

Lubitz Financial
Miami

■ Asset Allocation



■ Suggested Mutual Funds:

- Pimco Real Return Bond
- Thornburg Value
- Calamos Growth & Income
- Dodge & Cox Stock
- American Funds Washington Mutual
- American Funds Europacific Growth
- Royce Total Return
- Bjurman Micro-Cap Growth
- Dreyfus Premier Emerging Markets Class R

Advest
Garden City, N.Y.

■ Asset Allocation

■ Suggested Mutual Funds:

- ING Principal Protection VII Class C
- Eaton Vance Government Obligations Class C
- Van Eck International Investors Gold Fund Class A