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ASSET ALLOCATION

You’ve Sold Your Stocks. Now What?

By ROY FURCHGOTT FEB. 25, 2009

BACK in the summer of 2007, Ben Mickus, a New York architect, had a bad feeling. He and his wife, Taryn, had invested in the stock market and had done well, but now that they had reached their goal of about $200,000 for a down payment on a house, Mr. Mickus was unsettled. “Things had been very erratic, and there had been a lot of press about the market becoming more chaotic,” he said.

In October of that year they sat down for a serious talk. Ms. Mickus had once lost a lot of money in the tech bubble, and the prospect of losing their down payment made Mr. Mickus nervous. “I wanted to pull everything out then; Taryn wanted to keep it all in,” he said. They compromised, cashing in 60 percent of their stocks that fall — just before the Dow began its slide.

A couple of months later, with the market still falling, Ms. Mickus was convinced that her husband was right, and they sold the remainder of their stocks. Their down payment was almost completely preserved. Ms. Mickus said that in private they had “been feeling pretty smug about it.”

“Now our quandary is, what do we do going forward?” Ms. Mickus said.

Having $200,000 in cash is a problem many people would like to have. But there is yet another worry: it’s no use taking money out of the market at the right time unless it is put back in at the right time. So to get the most from their move, the Mickuses will have to be right twice.

“Market timing requires two smart moves,” said Bruce R. Barton, a financial planner in San

Jose, Calif. “Getting out ahead of a drop. And getting back in before the recovery.”

It’s a challenge many investors face, judging from the amount of cash on the sidelines. According to Fidelity Investments, in September 2007 money market accounts made up 15 percent of stock market capitalization in the United States. By December 2008, it was 40 percent.

“In 2008 people took money out of equities and took money out of bond funds,” said Steven Kaplan, a professor at the Booth School of Business at the University of Chicago.

He cited figures showing that in 2007 investors put $93 billion into equity funds. By contrast, in 2008 they took out $230 billion.

Michael Roden, a consultant to the Department of Defense from the Leesburg, Va., area, joined the ranks of the cash rich after a sense of déjà vu washed over him in August 2007, as the markets continued their steep climb. “I had taken quite a bath when the tech bubble burst,” he said. “I would never let that happen again.”

With his 2002 drubbing in mind, he started with some profit taking in the summer of 2007, but as the market turned he kept liquidating his investments in an orderly retreat. But he was not quite fast enough.

“When Bear Stearns went under I realized something was seriously wrong,” he said. The market was still in the 12,000 range at that time. When the Federal Reserve announced it would back Bear Stearns in March 2008, there was a brief market rebound. “I used that rally to get everything else out,” he said.

Mr. Roden said he had taken a 6 percent loss by not liquidating sooner, which still put him ahead of the current total market loss. Now he has about $130,000, with about 10 percent in gold mutual funds, 25 percent in foreign cash funds and the rest in a money market account.

“I am looking for parts of the economy where business is not impaired by the credit crunch or changes in consumer behavior,” he said. He is cautiously watching the energy markets, he said, but his chief strategy is “just trying not to lose money.”

As chief financial officer of Dewberry Capital in Atlanta, a real estate firm managing two million square feet of offices, stores and apartments, Steve Cesinger witnessed the financial collapse up close. Yet it was just a gut feeling that led him to cash out not only 95 percent of his personal equities, but also those of his firm in April 2007.

"I spent a lot of time trying to figure out what was happening in the financial industry, and I came to the conclusion that people weren't fessing up," he said. "In fact, they were going the other way."

Now, he said, "We have cash on our statement, and it's hard to know what to do with it."

Having suffered through a real estate market crash in Los Angeles in the early 1990s, Mr. Cesinger is cautious to the point of re-examining the banks where he deposits his cash. "Basically, I'm making sure it's somewhere it won't disappear," he said.

The F.D.I.C. assurance doesn't give him "a lot of warm and fuzzy," Mr. Cesinger said. "My recollection is, if the institution goes down, it can take you a while to get your money out. It doesn't help to know you'll get it one day if you have to pay your mortgage today."

His plan is to re-enter the market when it looks safe. Very safe. "I would rather miss the brief rally, be late to the party and be happy with not a 30 percent return, but a bankable 10 percent return," he said.

Not everyone is satisfied just to stem losses. John Branch, a business consultant in Los Angeles, said his accounts were up 100 percent from short-selling — essentially betting against recovery. "The real killer was, I missed the last leg down on this thing," Mr. Branch said. "If I hadn't missed it, I would be up 240 percent."

Mr. Branch said he had seen signs of a bubble in the summer of 2007 and liquidated his stocks, leaving him with cash well into six figures. Then he waited for his chance to begin shorting. The Dow was overvalued, he said, and ripe for a fall.

Shorting is a risky strategy, which Mr. Branch readily admits. He said he had tried to limit risk by trading rather than investing. He rises at 4:30 a.m., puts his money in the market and sets up his electronic trading so a stock will automatically sell if it falls by one-half of 1 percent. "If it turns against me, I am out quickly," he said. By 8, he is off to his regular job.

Because Mr. Branch switches his trades daily based on which stocks are changing the fastest, he cannot say in advance where he will put his money.

And if he did know, he'd rather not tell. "I hate giving people financial advice," he said. "If they make money they might say thank you; if they miss the next run-up, they hate you."

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