History was made in 2008, a year marked by the credit crisis, $700 billion bailout, gas prices fluctuating from $1.70 to $4 a gallon, and a global recession. All eyes are on 2009 to become another historic year—for opportunity.

Make a fresh start in 2009 by reviewing your financial plan and developing strategies to take advantage of a much-anticipated economic turnaround.

Here are 7 steps to take now.

1. Examine your objectives for portfolio funds. For short-term (1-3 years) needs, invest conservatively in cash or short-term money market or bond funds. Retirees or those within 3 years of retirement should consider keeping enough to fund 1-2 years of living expenses in cash or short-term bonds.

For long-term needs (over 5 years), invest in the market according to your risk tolerance. Remember that market declines and bear markets are normal. Bear markets occur once every 3 years, lasting an average of 367 days.

Avoid attempting to “time” the market. For example, $10,000 invested in the Standard & Poor’s 500 Index on Jan. 1, 1980, and held to Dec. 31, 2007, would have grown to $306,222. This time frame encompasses several significant events, including the stock market crash of 1987, 9/11, and the 2000-2002 recession. Missing the 10 best days of market returns over a 20-year period from 1987-2007 would have resulted in a 3.54% lower return than staying invested for the full period.

2. Review income needs in retirement. Can your portfolio value continue to sustain your annual withdrawal rate, given its depressed value? You may need to rework your budget to cut back on expenditures, alleviating the need to depend as much on your portfolio. Cutting back on expenditures allows more time for your portfolio to recover.

3. Assess the risks inherent to your portfolio. You cannot avoid risk; you can understand and manage your risk. Consider the following risk-management strategies:

- Risk tolerance. Consider reducing the risk objective of your portfolio if frequent market fluctuations are causing loss of sleep or added stress. Remember that less risk often correlates to a lower return.
- Return assumption. Is your projected investment return still realistic given that all asset classes were hit hard in 2008? Will a lower return for the near future allow you to meet your goals?
- Inflation risks. Stocks have historically outperformed inflation. Moving into a conservative portfolio or strictly money markets subjects your portfolio to inflation risk, reducing your purchasing power over time. Average money market accounts currently yield less than 2.5% per year while the annual average inflation rate is over 3.5%.
- Asset class concentration. The current market conditions have hit some asset classes—such as equities—harder than others. For example, a target of 60% in equities may only be 40% now due to the market declines. Review your allocation and rebalance back to your target percentages.

4. Maximize 401(k) and 403(b) plan contributions. Deferral rates have been updated for 2009. Elective deferrals are $16,500, up from $15,500. Over age 50 “catch-up” contributions are now $5500, up from $5000. Contact your plan administrator to ensure your contributions will be increased to these levels if you’re able to maximize your contributions.

5. Consider converting or donating your IRAs. If your Modified Adjusted Gross Income (MAGI) is less than $100,000, you can convert a traditional IRA to a Roth IRA. Depressed asset values mean fewer taxes paid on conversion from traditional to Roth. Also, the Required Minimum Distribution (RMD) to charity has been extended for 2009. If you are over age 70½, you can direct your RMD directly to charity and avoid the tax due on distribution.
6. IRA Required Minimum Distribution Relief. Congress has extended relief on RMDs for 2009 only. If you are over age 70½, you will not need to take a distribution from your IRA this year. Consider leaving your IRA assets invested to allow their values to recover.

7. Harvest tax losses. Realize capital losses from 2008 declines to offset against current and future gains. If losses exceed gains, you can offset against gains plus an additional $3000 to offset against ordinary income. Losses in excess of $3000 can be carried over to offset against gains in future years.

Conclusion
Remain focused on the long-term. Review goals to ensure they’re still realistic. Seek guidance from a financial professional if you feel you need additional assistance. Most importantly, look forward to a brighter year for investments in 2009.
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