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WHEN IT'S TIME TO RETIRE THE LONG-TERM STRATEGY
ADVISERS AND BROKERS OFFER SUGGESTIONS TO SHIELD NEST EGG FROM STOCK MARKET'S STORMS

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Along with motherhood and apple pie, the idea of long-term investing is now enshrined in America as a symbol of what's right and proper. I'm not surprised. History proves that long-term investing can be richly rewarding -- especially for people who can let their investments grow for 25 years or longer.

But I have started to question whether the idea of long-term investing is still suitable for a person of my age. I am approaching my 71st birthday. And while I hope to be around for a while yet, I don't think I've got 20 more years to invest. So I've been asking myself: How can I be a long-term investor when I have a short term in which to invest?

Long-term investing is based on a familiar fact: In the short run the markets go up and down, but in the long run they tend to rise. Thus, the way to profit is to stay in for the long haul.

But there's a flip side to that view: Once you get to an age where your investment horizon is limited, you become increasingly subject to daily market gyrations. And your chances of losing money rise dramatically. That's what's bothering me. I still believe in the stock market's long-term benefits -- for others. But I don't know if I've got enough years left to recover my losses if we get caught in an extended market slide or a severe bear market.

Many of my fellow retirees, I've found, are equally uncertain about how to invest. Some of them gave up on stocks long ago because they felt they were too risky. But they paid a penalty. While their savings sat in low-yielding CDs for years, the market climbed higher and higher.

Other friends suffer from an embarrassment of riches. They'd like to reduce their risk levels by selling the stocks they've held for years, but they don't dare. The taxes on their profits would be too high.

In my case, I'm nervous because I'm heavily invested in stocks. When I retired from The Washington Post 18 months ago, I took my 401(k) money, representing 20 years of savings, rolled it over into a brokerage account, and invested it all in stocks and stock funds.

Why? Frankly, I was unwilling to bet against the stock market, which has been on the rise for the past 15 years -- despite occasional tumbles.

In a previous column, I described how I missed out on $70,000 in gains in my Post savings plan because I switched from a stock fund to a money-market fund and stayed there for almost six years. I had a hard time explaining that to my wife, Sara. And I wasn't going to make that mistake again.

Was it wise to put all of my money in stocks? I'm doubtful. My portfolio gained 33 percent in 1997 -- but the party has ended quickly. In the first six trading days of this year, my portfolio dropped 10 percent because of the "Asian contagion." Worse yet, as the chart accompanying this article illustrates, a group of my better-performing stocks lost one-third of their 1997 gains.

All this has led me to conclude that, with 100 percent of my money in stocks, I am too far out on a limb. So I have started to explore alternative, more conservative ways to invest. Since I am working within an individual retirement account, capital gains taxes are not an immediate concern.

I asked several friends who are investment advisers and brokers to suggest some of the options available to me, and to other investors who are in their seventies or eighties. I asked them to put equal emphasis on safety, income and growth -- clearly an impossible request. I also asked that a portion of the investments be liquid enough to permit me to make periodic withdrawals.

That was a tall order, but they came up with several useful ideas.

The Best of Both Worlds Portfolio: Clement Shugerman, head of Preferred Financial Planning in Bethesda, proposed that I split my money 50-50 between fixed-income securities and stock funds. The fixed-income securities would provide the income and the easy, periodic withdrawals I wanted, while the stock funds would provide the growth.

To implement his strategy, Shugerman suggested that I open a money-market mutual fund and buy a group of U.S. Treasury securities with maturity dates ranging from 13 weeks to five years. This is called a "ladder" because you are investing your money for staggered time periods at varying interest rates.

Usually, the longer the term of the security, the higher the interest rate. As the Treasury securities came due, the cash would be deposited in the money-market fund -- where it would be available as needed. Incidentally, interest on Treasury securities is taxable for federal purposes but generally exempt from state and local taxes.

Individuals can buy Treasuries through a broker or through Treasury Direct -- without a fee. To get information and an application for Treasury Direct, call 202-874-4000. Investors can pay for purchases by direct withdrawal from their bank accounts. And when securities are redeemed, the proceeds can be deposited directly into the same bank account.

Shugerman said that while he often recommends bond funds, he prefers using "laddered" Treasuries for clients who want to withdraw specific amounts of money at specific intervals. Investors who buy Treasury securities know what their investment will be worth when held to maturity. In a bond fund, your shares could be worth more or less than you paid because of changes in interest rates.

On the stock side, Shugerman said he liked several no-load funds run by managers who have won his confidence. They include:

The Torray Fund (1-800-443-3036). Run by Bethesda money manager Robert E. Torray, the fund invests in undervalued stocks of large growth companies. The five-year annual return: 23.7 percent.

Longleaf Partners Realty Fund (1-800-445-9469). Managed by C.T. Fitzpatrick and Mason Hawkins, this young fund looks for undervalued real estate stocks. Its one-year return: 29.7 percent.

Baron Asset Fund (1-800-992-2766). The manager is Ronald Baron, renowned for finding small companies in future growth areas. His five-year annual return: 24 percent.

T. Rowe Price Dividend Growth Fund (1-800-638-7890). William J. Stromberg runs this popular growth and income fund. The five-year annual return: 21.4 percent.

The Plain Vanilla With a GELIA Twist Portfolio: Dixie Butler, head of Butler Financial Inc. in McLean, suggested I put equal portions of my money in three pots: a money-market fund; a balanced or total-return fund, which typically holds 50 percent bonds and 50 percent stocks; and finally a "guaranteed equity-linked index annuity," or GELIA. That's the twist.

The GELIA, only about two years old, was designed for risk-averse investors who want to share in stock market gains but are afraid to lose money.

The GELIA has two main features: It gives investors 65 percent to 75 percent of the gain on a major market index, such as the Standard & Poor's 500-stock index. But if the S&P index shows a loss, the annuity guarantees the policyholder will get a minimum of 3 percent interest on 90 percent of the money invested. Some investment firms pay 3 percent on 100 percent of the investment.

But if you take your money out before the annuity is due, usually about five years, the surrender charges could eat into your original investment. Butler said she thought the GELIAs were ideal for people who did not want to put their savings at risk. A major advantage, Butler noted, is that GELIAs, as annuities, compound tax-free. No taxes on the gains are due until the money is withdrawn.

Unfortunately, insurance companies have made it difficult for consumers to comparison-shop for GELIAs. They use many different methods for figuring the gain on the S&P 500 -- and thus how much they will pay their policyholders. Some companies allow partial withdrawals, but each has different rules. Surrender charges also vary.

Investments in GELIAs have reached close to $3 billion, according to Jack Marrion, president of the Advantage Group, a consumer research organization in St. Louis. For more information on GELIAs, call the Advantage Group at 314-434-6030.

The Greyhound Bus Portfolio: Remember the old Greyhound slogan "Leave the Driving to Us"? That's the idea behind the recommendation of Reina M. DuVal, a financial planner and broker at Raymond James & Associates in Washington. One of the best things investors can do, DuVal said, is put their savings in the hands of a professional money manager who has a record of providing a good return with low risk.

In that spirit, DuVal often recommends that investors with $100,000 open a "wrap" account with one of several money managers. One of her favorites is Fox Asset Management of Little Silver, N.J. Fox invests in undervalued stocks of medium-size to large companies. The company has a 10-year average annual return, after fees and expenses, of 14.4 percent.

Investors in a Fox "wrap" account pay a 3 percent all-inclusive annual fee. Fox gets 1 percent, Raymond James gets 2 percent, and DuVal gets about one-third of the 2 percent.

When I told DuVal the "wrap" fee sounded expensive, she cited several reasons she believes the service is worth the cost. Fox, she said, has the staff, expertise, research and experience needed to manage large sums of money in today's complicated markets.

Moreover, she added, many investors already pay about 2.5 percent a year in commissions and fees to invest in mutual funds sold by brokerage houses. So, for an extra 0.5 percent, she said, the client can get valuable investment advice plus important record-keeping services.

If clients don't have the $100,000 minimum required by Fox, or don't want to use a "wrap" account, DuVal suggests they consider two of her favorite funds:

The Salomon Brothers Total Return Fund (B) (1-800-725-6666), run by conservative value investor Richard E. Dahlberg, who previously ran the MFS Total Return Fund for 10 years. The two-year-old fund, which emphasizes income, recently had 45 percent of its money in stocks, 40 percent in bonds. Its one-year return: 18 percent.

The Heritage Income Growth Trust (A) (1-800-421-4184), run by co-managers Lou Kirschbaum and David Blount. Seeking to provide a balance of current income and capital appreciation, they invest in stocks of to medium-size to large companies. Their five-year annual return: 17 percent.

So, what am I going to do with my portfolio? Frankly, I've decided it's time to be somewhat more cautious. I'm going to go from being 100 percent in stocks to about 60 percent in stocks and 40 percent in bonds. I'll move to funds that emphasize interest income and dividends -- the kind suggested by my friends. I also like the Treasury "ladder" idea.

Lowering my risk level will mean selling some of my individual stocks. Less risk will mean less reward, of course. But I would be more comfortable with a portfolio that has less potential downside -- even if it has less upside.

Does that sound like a wise strategy for a 71-year-old? I hope so. Let me know what you think.

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Several of Stan Hinden's better-performing stocks have lost considerable value since their 1997 high.

Company	1/2/97 closing price	'97 peak price	Price*	Pct. change to date* since'97 peak
AES	$22.683/4	$47.933/4	$41.683/4	-- 13.0%
American Management Systems	$24.621/2	$27.121/2	$21.75	-- 19.8
Ascent Entertainment Group	$14.00	$15.00	$10.00	-- 33.3
Bank United Corp.	$26.00	$49.871/2	$43.371/2	-- 13.0
Europe Fund	$16.00	$19.00	$16.683/4	-- 12.2
Fairchild	$14.371/2	$28.50	$22.433/4	-- 21.3
Heilig-Meyers	$15.621/2	$20.00	$12.561/4	-- 37.2
LCI International	$20.50	$31.431/2	$29.75	-- 5.4
Maryland				

Federal

Bancorp $17.371/2 $35.00 $30.00 -- 14.3

T. Rowe Price

Associates $42.121/2 $73.50 $56.871/2 -- 22.6

*as of Jan. 15

SOURCE: Bloomberg News

Caption:CHARTS

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