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Hedging against recession

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With estimates of the damage from Hurricane Katrina surging to as high as $200 billion, Wall Street gurus are trying to figure out what the storm means for the economy — and for investments.

Some fear that the catastrophe — which has cut crude-oil production in the Gulf of Mexico by 58%, shut down five U.S. oil refineries and closed the Port of New Orleans — could kick our country into a recession.

If you're one of the worriers, what should you do to protect your financial health? Your Money asked the experts what people with $10,000 to invest should do to defend their investments against the economic uncertainty — or a recession.

AVOID MAKING MOVE ON EMOTION

"You don't want to make emotional decisions — that can be a losing proposition," warned Scott Kahan, a certified financial planner at Financial Asset Management.

He cautioned against pulling money out of stocks and investing heavily in bonds, which is a common tactic for protecting against recession.

It will take a while to get under way — but there will be massive government spending to rebuild the Gulf Coast. Some of your holdings should be stocks in companies that will participate in the reconstruction — suppliers of timber, concrete, building supplies, even mobile homes, Kahan said.

"With rebuilding, there will be growth opportunities," he predicted.

With $10,000 to invest, you don't have enough money to pick individual stocks yourself. Instead, buy stock mutual funds that are well-managed — the fund managers will make these decisions, Kahan said.

Diversify your investments to cut down on risk. Here's how he advises you to divide up your investments:

25% in a bond fund.

15% in an international stock fund.

10% in a small-cap stock fund.

5% to 10% into a commodity fund.

30% to 35% into a large-cap stock fund.

10% in a money-market fund, so you can buy more of your favorite mutual funds when there are price dips.

You should also put your finances in order by setting a cap on your heating oil costs if you own a home with an oil-burning heating system. And review your homeowner's or renter's insurance to make sure flood protection is included.

STOCKS ARE THE PICK OVER BONDS

Timothy Ghriskey, the chief investment officer of Solaris Asset Management, favors stock investments over bonds in the current economic climate — and recommends mutual funds if you've got $10,000 to invest.

If you feel confident about your ability to pick the winners yourself, buy no-load funds, which you can get without a broker, he said. Otherwise, have a broker find high-performing funds for you, for a 5% fee.

People with more money to invest can pick individual stocks — but you should own at least 10 different stocks, in a variety of industries, he cautioned.

Health care stocks are a good, conservative choice for the recession-wary, said Ghriskey. He likes Schering-Plough, a pharmaceutical firm with a steady flow of new drugs in its production pipeline.

Consumer staples are another conservative buy. Ghriskey favors Hain Celestial Group, whose stable of organic and natural food and beverage brands include Celestial Seasonings teas and Terra Chips, the gourmet potato and vegetable chips.

A good way to invest in rebuilding is through stocks of construction-equipment manufacturers, like Caterpillar, he said.

It's late in the game to buy oil stocks, which have been rising in recent months. "Nothing goes up forever," Ghriskey said.

BONDS CAN EASE WORRY LEVEL

Clare Stenstrom is a big believer in stocks. If you give them time — say, a decade — stocks will make more money for you than bonds.

But if worries about recession are making you really anxious about keeping your money in the stock market, then it's time for you to switch to bonds, she counseled.

"What's the sense of having money in the stock market if you're sick to your stomach?" said Stenstrom, who's a certified financial planner at Bourne Stenstrom Capital Management.

Inflation-adjusted U.S. Treasury bonds are a good choice. Or keep half your money in stock mutual funds, and put half into bond funds, she said.

If you think a weakening economy could cause you to lose your job, pay off your credit-card debt, Stenstrom advised. And create an emergency fund — put cash into a money-market fund, enough to cover living expenses for six to nine months.

Otherwise, if you're under 60 and working, and don't need to cash out of your investments for at least five years, stick with stock funds, she said. Recessions usually last only two or three years.

Just be sure that before you put your money anywhere else, you contribute as much as you can afford to your retirement plan, which is a 401(k) if you work for a company or a 403(b) if you're a teacher or work for a nonprofit organization.

If you're 65 or older and plan to retire in the next year, then you should move some of your money out of stock funds. Figure out how much you'll need for living expenses for three years — minus Social Security payments and any other income you expect — and put one year's worth in a money-market account, and two years' worth in certificates of deposit, she said.