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Bears and Bucks

Where to invest when the economy heads south

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By most market measures, it's now official: We're in a bear market.

Granted, a bear market doesn't mean bull to people just trying to scrape buy without getting deeper in debt. Still, there must be investments out there that make more sense than stuffing cash under your mattress.

Should you invest in Chinese yuan? Buy an ethanol-primed cornfield? Real estate? The possibilities are seemingly endless. The advice is, however, more narrow in scope.

"Safe is cash. CDs are always safe. But that's not really investing. That's just saving, with a little bit of interest," says David M. Taube, founder and president of Kalorama Wealth Strategies. "My approach is to invest in a globally diversified portfolio of stocks and bonds through mutual funds."

Singing from the same choir book, Beth Jones, president of Third Eye Associates, says, "The most important thing is people should be fully diversified: big companies, little companies, international.... Stocks, bonds, mutual funds."

While both financial experts laud the value of an investment portfolio as diversified as a Benetton ad, they also offer plenty of warnings.

So that Chinese yuan idea -- not so good?

Taube: "Foreign currencies are not something that I invest in. It's much too risky."

Jones: "No. But China should be part of your portfolio."

How about the real estate?

Jones: "A primary residence is an important part to own. If you're in the market, it's a good time to buy. D.C. is a wonderful market with lots of potential."

As purely an investment property, however, Taube warns, "The numbers typically don't work out very well. In this area, rents don't cover costs of ownership, including mortgage payments. Long term, it's a good place to put your money for capital appreciation -- inside the Beltway. But for cash flow, it's typically not a good investment. There are second-tier counties [in the metro area] with tons of foreclosures, but I wouldn't put my money there."

Maybe you're a wannabe day-trader, however, who wants to play in the market be it bearish or bullish. Aaron Overman, a 30-year-old District employee, fits that description and he's done fairly well. His method? Betting on the bull.

Overman's been dabbling with funds that "sell short." In a nutshell, he's investing in a bet that a particular sector will do worse than is expected. In his case, he saw a 50 percent return betting against the real-estate market.

"I would say I'm rather conservative. I love to save money," says Overman. "I maybe play with 10 percent of what I save."

By "playing," Overman means that when he's dabbling on Scottrade, he's ready to lose whatever he puts in. And with conventional short selling, he could be liable for debts far greater than his investment. Short selling through a fund, however, limits liability to only the cash he invests.

Beyond Scottrade, Overman says he learns about the market by following a couple different blogs, Afraid to Trade and The Big Picture, particularly.

"The blogs point you in a different direction," he says. "You don't just do what they say, but it gives you ideas to think about."

And though Overman is betting against the market, Jones and Taube see the bull market as a prime opportunity for traditional investing.

"The market is down today. It's been down a lot. But when is the market most risky? When it's high or when it's low?" Taube asks, implying the obvious answer: Buy low, sell high.

Adds Jones: "It's a huge opportunity. It's a buying opportunity. You buy when it's a bargain and everything's on sale."