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# The middle class helplessly watches wealth evaporate

By Robert Weisman
GLOBE STAFF

It's getting eerily familiar: another plunge in the Dow. The index has tumbled nearly 930 points in the past two days, retreating to a level that, until the current economic crisis, hadn't been seen in five years.

Another stock loss also means another loss of personal wealth for tens of millions of middle-class Americans who invest in financial markets, either directly or through retirement accounts. And it's not just stocks. In September, median home prices in Massachusetts dropped below $300,000 for the first time since the spring of 2003.

For some, the five years of growth and prosperity that preceded the financial crisis now seem like a mirage, as if the run-up in financial markets and real estate prices simply did not occur. Stocks alone have lost more than $5 trillion in value in the past 13 months, leaving legions of investors in a state

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# Middle class watches wealth evaporate

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of shock.

"Nobody put a gun to my head and said, 'Put it in mutual funds.' It seemed like a logical thing to do at the time, but now there's a whole lot less of it," said Diane C. Darling, 49, a Boston business consultant.

Darling spent years paying rent while she squirreled away money in mutual funds, hoping to eventually buy a home. But she recently made the wrenching discovery that five years of her savings — more than $50,000 — had vanished with the stock market plunge. "All of a sudden, I had half of what I thought I was going to put down for a down payment," she said. "It's not where I thought I'd be at this stage of my life."

The near daily barrage of troubling economic news has challenged assumptions about building wealth, especially the buy-and-hold philosophy of investing for the long term, which has been broadly embraced by ordinary investors. Yesterday, the Dow fell 443.48 points, or 4.9 percent, to 8,695.79.

"There are feelings of loss and grief over losing a nest egg, a feeling of security," said Boston clinical psychologist Inna Khazan, a psychology instructor at Harvard Medical School. "There's a lot of second guessing of past decisions: 'I wish I hadn't invested my 401(k) money in stocks, I wish I picked different stocks.' They had a plan they thought was working. Now they'll have to make a different plan."

Some have begun to do just that. Frank Gerry, a 47-year-old software engineer, bought his house in Brighton in 2003, and after its value climbed steadily for five years, watched it sink back to roughly what he paid for it. Gerry, however, said he shifted much of his 401(k) savings into cash in the past year because he was wary of a market bubble. Now that it's popped, he's putting it back in stocks.

"I don't consider myself poorer," Gerry said. "I consider this an opportunity to make a killing in the next five years. I could lose my job next week, for all I know. But if I do, I'll do something else. I'll get another job, I'll go to work at Home Depot, or I'll start a business."

Not everyone is dealing with the loss of wealth with equanimity. Judy Ludwig, a financial planner for Braver Wealth Management in Newton, said people are "spending less and they're stressing more. I don't know if they're drinking more. There's a sense of unreality. They say if they had just put their money under their mattress for the past five years, at least it would still be in the same place."

In many cases, the default reaction to tough times is to tighten the purse strings, a tendency that has begun to show up in the economic data. The economy shrank 0.3 percent in the third quarter, largely because consumer spending dropped at an annual rate of more than 3 percent, the sharpest fall in 30 years.

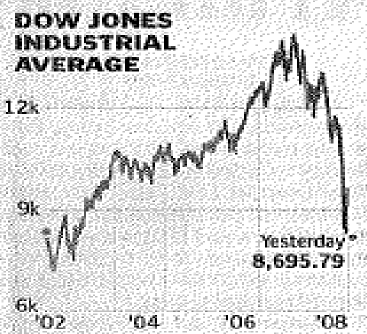
"The psychological impact is creating a kind of paralysis for many individuals," warned business author Shoshana Zuboff, a retired Harvard Business School professor now living in Maine. "There's shock, and people literally don't know what to do. And as a result, they are trying to do absolutely nothing. They don't want to spend anything."

And some are having second thoughts about the buy-and-hold strategy as they reassess their tolerance for risk.

"If you're down 30 percent, you're asking yourself whether you can get that back in five years or whether it will take longer," said Donald Klepper-Smith, chief economist at DataCore Partners, a New Haven, Conn., research firm. "Buy and hold works for the long term, but if you're about to retire, you're taking it on the chin."

Financial planners like Ludwig counsel their clients to stay in the market and wait for it to rebound, buying stock at beaten-down prices along the way. But that message isn't an easy sell these days.

"People want it both ways," Ludwig observed. "They don't want to lose more money, but they don't want to miss out on



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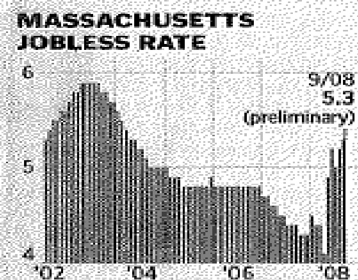
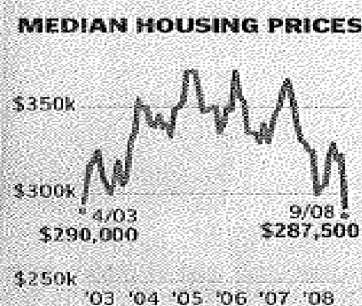


SOURCE: Bureau of Labor Statistics



SOURCE: Warren Group

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the days when the Dow goes up 889 points. They're not being realistic."

Khazan, the clinical psychologist, has her own words for patients reeling from erosion in their personal wealth: "I advise people to experience their anxiety, nor run away from it," she said. "Anxiety is very unpleasant, so people try to push it away and not face it. But there's a good reason to be anxious, and anxiety is there for a reason."

*Robert Weisman can be reached at weisman@globe.com.*