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Last Straw or Time to Buy?

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Laurence Montello, a certified financial planner in Palm Beach Gardens, Fla., stayed the course through the stock market's swings earlier this month. Now that stocks are slumping again, led by Thursday's 3.7% decline in the Dow Jones Industrial Average, he is urging clients to bail out.

"Three weeks ago, I would have said: 'We're in it for the long haul,'" Mr. Montello says. "But we don't want to see these $200,000 to $300,000 swings in performance in a $5 million account."

Mr. Montello now is advising clients, many of them retired, to move 20% of their stock portfolios into cash and 10% into Treasurys.

Greg Zandlo, a certified financial planner in Coon Rapids, Minn., went further: He advised clients Thursday to move their investments completely out of equities. "Stocks that have a 5% dividend are great, but what kind of consolation is that going to be if they're down 10%?" he asks.

After the 419.63-point selloff by the Dow, many individual investors are finally throwing in the towel. They were already nervous. Investors withdrew $23.5 billion from domestic equity funds during the week ended Aug. 10, more than in any single entire month since October 2008.

On Thursday, trading volume at discount broker Scottrade Inc. was 77% higher than the day before and 50% higher than average of the four previous days, while TD Ameritrade also said volume surged.

What do Europe and market volatility means for your portfolio. Financial advisers Josh Brown, Kathy Boyle and Frank Seminara give their prediction for the rest of the year and alternative investment picks. Wealth Adviser's Veronica Dagher reports.

Relyea Zuckerberg Hanson LLC, a wealth-advisory firm in Stamford, Conn., that manages about $500 million, has been working hard to keep its clients calm. Carl Zuckerberg, its chief investment strategist, has sent out three client emails in the past week.

"We're fighting the perception that something unusual is going on," he says, "when what's really unusual is a prevailing end-of-the-world mindset."

Janet Moffett says that her stomach dropped on Thursday as her anxieties about the economy worsened. The 73-year-old Beverly, Mass., resident, who retired in April, planned to call her financial adviser after she "settles down" to ask that he move more of her $200,000 investment portfolio into cash. Otherwise, she says, "I think I am going to be wiped out."

To guard against the kind of volatility that led the market's "fear index"—the VIX, short for the Chicago Board Options Exchange Volatility Index—to spike 38% on Thursday,Mark Singer, president of Safe Harbor Retirement Planning in Lynn, Mass., is reducing his clients' equity exposure by up to 25%. Mr. Singer, who manages $70 million, has sent out six emails to clients with what he calls "group hugs" to assuage their fears.

Ted Sarenski, chief executive of financial adviser Blue Ocean Strategic Capital, is telling his clients to keep at least 20% of their total investments in cash. "While it might not be earning anything," says Mr. Sarenski, whose Syracuse, N.Y., firm manages $150 million, "that cash at least isn't losing value."

For investors who are panicking, T. Rowe Price Group Inc. suggests putting a process in place for liquidating portions of your portfolio gradually—such as liquidating 10% today, and then later, maybe in a week or a month, liquidating another 10%, until you "regain your emotional equilibrium," says Christine Fahlund, a senior financial planner at the Baltimore firm.

The slide has other advisers reassessing their assumptions. Devin Pope, a certified financial planner in Salt Lake City, has ratcheted back his performance assumptions for future rates of return on equity portfolios to the 5%-to-6% range, from 7% to 8%.

For a "balanced account" with at least 30% bonds along with equities, he has reduced the projected rate of return to 3.5% to 4%, down from 5% to 6%.

His reasoning: With governments grappling with deficits around the world, "we're going to have to have a decrease in government spending and an increase in taxes to combat those deficits," Mr. Pope says. "That's going to put stress on GDP and consumption-and limits the earnings we're going to see for the next five to 10 years."

Not everyone is pulling the plug. Christopher Cordaro, a wealth manager at RegentAtlantic Capital LLC in Morristown, N.J., says that he and his clients are holding tight. "We're in a slow-growth recovery that will have a lot of volatility associated with it," Mr. Cordaro says. "But there's not enough bad economic news to get out of the market."

—Thomas Coyle contributed to this article.

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