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Financial Q&A: Protect your principal when money is tight

Submit your questions to Steve Dinnen at: money@csmonitor.com

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Q: I sold my house and put $45,000 in a money-market account and have $50,000 left to invest. Should it be in bonds? I also have $20,000 in mutual funds in an IRA and Roth IRA. I'm 66, receive $647 a month in Social Security, and have enough in savings to cover three months of expenses. I am now renting. Also, how do I find a financial adviser who will give me sound advice at my age?

D.K., via e-mail

A: Dana Levit, a fee-only financial planner in Newton, Mass., says that she leans toward keeping the $50,000 safe because it sounds as if you can't afford to lose principal. Further, your time horizon may not be extremely long if you're already close to retirement.

So, what would Ms. Levit define as safe?

"I would likely advise you to ladder two CDs – one for six months and the other for a year," she says. You can roll over the CDs as they come due if you don't need the cash at that point. This way at least $25,000 will be available every six months.

As to finding some advice, there are several routes. You can search for a fee-only financial adviser at NAPFA.org, the website of the National Association of Personal Financial Advisors. And fee-based as well as commissioned planners can be found at the website for the Financial Planning Association (fpanet.org).

Q: I am considering investing in municipal bond mutual funds. What is the best way to know which ones to buy? Should I only buy bonds from states with a budget surplus, like Texas, Louisiana, Idaho, and Indiana?

D.J., Mountlake Terrace, Wash.

A: Government bond defaults are rare. But they do happen; anyone remember Orange County, Calif?

The best thing you can do is research like mad on these, says A.J. Sohn, a certified financial planner in Concord, Mass. (That's the case whenever you make an investment, he says – stocks, bonds, or other.) The health of the state or issuer is even more important in times such as these.

There is performance data and opinions on bond funds that are generated by third-party sources such as Morningstar or Lipper. You should review all of them, Mr. Sohn says.

Look at items such as performance over time periods of one, three, and five years. Expense ratios and manager tenure will provide some insight. Noting how a fund ranks versus its peer group over time can also show its consistency.

Fund companies have registered advisers on staff who can handle questions about the composition of a particular fund. But just because a fund owns, or does not own, municipal bonds issued by one state at a particular point in time does not mean it may not change course the day after you write your check. Unless, of course, it specifically rules out a type of bond because of its own internal guidelines, which that adviser should be able to address.

Further, says Sohn, most people add municipal bonds for tax efficiency, and you might wish to add a single-state muni-bond fund from your home state so that its income could be free from federal, state, and local income taxes. Lastly, while taxes are important, you should be careful not to let the tax tail wag the dog, he says.