As markets tank, financial planners advise calm

Panic selling could damage your long-term returns; Treasuries still safe

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The unprecedented downgrade of U.S. government securities puts the country in uncharted waters, and individual investors are likely to be feeling adrift as well. Investors have been fleeing the stock market in droves, sending the Dow Jones industrial average down 13 percent since July 21.

But for ordinary investors, selling indiscriminately in times of crisis is a bad idea, financial planners say. Here are some of the tips offered by professionals:

Don't pull out of stocks now. Financial planners are unanimous on one thing: Don't exit the stock market in a panic. "You need to be right twice," points out Dana Levit, owner of Paragon Financial Advisors in Newton, Mass. "You need to know when to get out and then when to get back in."

Vanguard Group founder Jack Bogle reiterated that sentiment. "These are terrible times to make decisions" based on panic, he told CNBC. Bogle urged investors to wait out the market downturn or at least keep any changes small and incremental.

Don't write off U.S. government securities. No less a respected financial mind than Warren Buffett weighed in, saying much of his own personal, as well as Berkshire Hathaway's, cash holdings are in the form of Treasury securities. Mitchell Goldberg, president of ClientFirst Strategy in Woodbury, N.Y., also says investors shouldn't be too quick to write off U.S. government bonds. Although it's counterintuitive, he says a global double-dip recession actually would make U.S. debt more attractive.

No matter what the ratings agencies say, the market tends to grade risk on a bell curve. Downgrade or not, U.S. Treasuries are still among the safest investments out there. If we're heading towards another global downturn — or are already there, as some believe — our debt is likely to look better by comparison. And in this market, if there's one attribute investors crave, it's safety.

Avoid so-called "safe haven" assets. Traditional safe havens such as gold and Swiss francs, are skyrocketing as equities tank. But that doesn't mean individual investors should pile in, cautions Goldberg. These investments can get sharply overpriced as panicked buyers flood in and then drop in value just as rapidly when the perception of risk fades. "Only the nimblest of people or the earliest investors will get out with something to show for it," he says.

Don't worry about your money-market account. S&P downgraded long-term Treasury bonds, but short-term T-bills are still AAA-rated. This means that vehicles like money market funds, which hold mostly T-bills of 90 days or less, are still a prudent choice for risk-averse investors.

There's a slight chance that this security could come with a price. If investors leave long-term U.S. bonds and are looking for an ultra-safe alternative, they could pile into T-bills. Theoretically that could force money market funds to pay more to roll over their investments, lowering the value of investor principal.

Remember that savings accounts are protected. Nervous investors always have FDIC-insured deposits as a haven of last resort. Generally bank accounts are fully insured up to $250,000 per depositor, per institution.

While savings accounts and CDs obviously aren't investment vehicles, they are a good place to park your cash if you anticipate a big expense such as a car, down payment or college tuition in the next couple of years, says Debra A. Neiman, principal and founder of Neiman & Associates Financial Services, LLC. "A market cycle is generally five years, so they should have cash set aside not subject to market fluctuations," she says. One silver lining to a downgrade-prompted rise in interest rates is that consumers should be able to earn a bit more on their savings accounts and CDs.

Prepare to pay more on home loans. The flip side of the market gyrations is that consumers will pay more to borrow money. Borrowers with variable home equity lines of credit (HELOCs) are likely to be among the first to feel the impact if America's creditors demand higher rates for holding our debt. Homeowners with adjustable-rate mortgages can also expect to see their payments increase when their rates adjust. "In the long term, you're going to see rate increases," says Levit. "It reinforces the fact that people really need to have an emergency fund."