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Fed's helping hand

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The surprise half-point cut in interest rates by the Federal Reserve yesterday is a clear signal the central bank will not stay on the sidelines while turmoil in the mortgage industry threatens the broader economy.

The fallout from the "subprime" mortgage debacle is the No. 1 enemy now -- not inflation, said Ian Shepherdson, chief U.S. economist for High Frequency Economics of Valhalla, N.Y.

"We think the data will force the Fed to ease again, but they are clearly open-minded," he said.

The Fed could cut rates another half point by year's end, according to J.J. Burns, president of J.J. Burns & Co., a Melville, N.Y., money manager with $500 million in assets under management.

Here, according to Burns, are some options for investors to consider as they ride the slide in rates.

- Play CDs: If you've stashed some cash in a money market fund, expect the rate you earn to drop immediately. So, act quickly to lock in a certificate of deposit, or CD, for six or nine months. Some have been paying 5 percent in recent weeks. Treasury bills of 30-, 60-, 90- and 180-day durations also are a good place to park the Benjamin's.

- Go corporate: The bonds sold by big corporations don't get hit so hard when the Fed cuts rates. So, you might find good value in buying the corporate bonds of large-cap companies such as GE, IBM or battered financial giants such as Bear Stearns.

- Junkyard dog: Don't forget about high-yielding junk bonds, given the widening "spread" -- or difference in interest rates -- between those instruments and safer Treasuries. The spread was as little as 2 percent in June. Today, it's more than 4 percent. That means higher-quality junk bonds can yield 8 percent, which is hard to ignore.

- Take stock of stocks: Go with companies that derive at least 40 percent of sales from overseas, which should do well even if the market is volatile. Go fishing in sectors such as technology, insurance and consumer companies that serve global markets. Aflac, State Street and Goodyear Tire are among the companies that benefit when rates go down.