Get your retirement back on course

More Choice
More Flexibility &
Investment Advice on your 401(k)
The Plight of the Individual Investor

It has long been known that individual investors do not typically fare well in their efforts at do-it-yourself investing. This notion has been validated by numerous studies, including one by Dalbar, Inc., which revealed the staggering margin by which the average individual investor trails the returns of the broader market.

As the chart shows, the study revealed the S&P 500* returned 7.81% while equity investor’s return over that same period was a paltry 3.49%; a difference of 4.32% annually.

The average fixed income investor faired no better over the same period achieving 0.94% annually while the Barclays Aggregate Bond Index* averaged 6.5%; a difference of 5.56% annually.

Why is the individual investor so inept at capturing the returns of the market? In a word: Emotions.

Emotion drives investors to buy the latest hot investment near its peak and sell the investment after riding it to the bottom on its inevitable slide downward. This “buy high, sell low” scenario is unfortunately not just an anecdote, but is very real for many individual investors.

The end result is simple, buying on greed and selling on fear might satisfy short terms emotional needs, but this lack of discipline may compromise long-term objectives.

* The Standard & Poor’s 500 Index and the Barclays Aggregate Bond index are unmanaged groups of securities considered to be representative of the stock market & bond market in general. Indexes are unmanaged & cannot be invested into directly. Past performance is no guarantee of future results.
Are you a prudent saver?

Do you have the time, training and temperament to make good decisions?

The vast majority of participants in a company retirement plan do not pay the needed amount of attention to their initial investment selection. Moreover, statistics show plan participants rarely revisit their choices over time as their objectives change and markets evolve.

7 ways to mess up your 401(k)*

1. Not signing up  
2. Not getting the full company match  
3. Taking too much risk  
4. Taking too little risk  
5. Following the crowd  
6. Taking out loans  
7. Cashing it out

Would your Advisor let you make these mistakes?

* Source: MSN Money – Staff Writer – Liz Pulliam September 23, 2009
Updating ERISA

Thanks in large part to the Pension Protection Act of 2006 (PPA), the most significant piece of legislation regarding retirement plans in over 40 years, many employers, both public and private, have updated and ultimately enhanced their retirement plans unbeknownst to the vast majority of individual participants in the plan.

Among these regulation changes, the PPA describes how to make arrangements to provide for investment advice to defined contribution & deferred compensation plan participants who direct their own investments.

Under the new rule, investment advisors either have to be compensated on a “level fee basis” — that is, the fees they receive can’t vary based on the investments they suggest — or they have to base their investment recommendations on a computer model that is certified as unbiased by an independent expert. Other requirements include an annual compliance audit.

The rule does not change the fact that employers already can, and many do, hire independent investment advisers to offer fee-based advice to 401(k) plan participants.

“Given the rise in participation in 401(k)-type plans and IRAs, the retirement security of millions of America’s workers increasingly depends on their investment decisions,” said Phyllis Borzi, assistant secretary of the Labor Department’s Employee Benefits Security Administration.*

*Source: “More 401(k) Plans, IRAs May Offer Investing Advice” MarketWatch.com – Andrea Coombes 10-26-2011
Over the past few years many employers have enhanced their retirement plans to include a Self-Directed Option (SDO) so that savers can have more choices and greater flexibility.

Plans that offer an SDO or ‘Brokerage Window’ offer employees the opportunity to take full control of a portion of their current retirement account by linking it to the existing ‘Core’ account. In doing so, participants expand the range of investment choices beyond the ‘Core’ investments and have access to the same management style as High Net Worth Investors, Institutions & Foundations.

Your ‘Core’ account refers to your retirement account through your employer. The SDO or a ‘brokerage window’ is a choice on eligible plans, that offers investment choices such as mutual funds, stocks, bonds and access to Fiduciary Investment Advice through a Registered Investment Advisor.

SDOs are very similar to traditional brokerage accounts, but because it is part of your retirement plan, you may only fund your SDO by reallocating money from your core retirement account.

If you are working with a professional investment advisor or are a more experienced investor who feels comfortable managing risk, and you are prepared to assume the responsibility of more closely monitoring this portion of your portfolio, an SDO could be appropriate for you.
Target Date Funds vs. Personal Advice

Target Date Funds* (TDFs) shift investors from stocks to bonds over time in an effort to become more conservative as retirement approaches. This transition is referred to as a “glide path” and while the basic concept seems reasonable, TDFs are widely criticized for the limits of their mass market approach. TDF’s cannot incorporate all the relevant personal facts that determine the ideal allocation for one’s retirement investments, and investors can find themselves either forfeiting needed growth or accepting unnecessary exposure to an increasingly volatile market.

With the exception of TDFs, retirement plans are designed for growth and accumulation not wealth preservation. Though most plans may be adequate if you have at least 20 or 30 years before retirement, not everyone has the luxury of time to recover what can be lost when markets have a bad year.

Don’t settle for a generic TDF that was designed for millions of participants when you can determine & create your personal retirement date portfolio. With the advice from the advisor you trust, you can have comprehensive investment management and cohesive financial planning in your company retirement plan.

* A Target Date Fund (TDF) is a fund of funds model that invests predominantly or exclusively in mutual funds with a certain maturity or specified date in mind, typically the time at which a participant is planning on retiring. Because TDFs are designed to change their allocation & objectives overtime, it is important for investors to revisit their investment selection periodically to make sure that the investment selected is consistent with their goals & objectives. TDFs are not guaranteed & past performance does not guarantee future results.
Schwab Survey says it all: Advice Matters

In Charles Schwab’s study, “The New Rules of Engagement for 401(k) Success,” plans serviced by Schwab found that use of advice can have a significant impact on people’s behaviors in 401(k) plans. Specifically, use of professional advice has a positive impact on participant savings, diversification, and investing behavior. For example:

**Improved savings rates** – Seventy percent of participants who receive 401(k) advice make changes to their deferral rates, and their savings rates nearly double.

**Greater diversification** - The average participant who has not received professional advice is invested in less than four (3.7) asset classes, whereas participants who receive advice have a minimum of eight asset classes.

**More disciplined investing behavior** – The vast majority (92%) of advice-users stayed the course in their 401(k) portfolios from July 2008 through February 2009 and was fully invested for the significant market rebound through the remainder of 2009.

* Source: The New Rules of Engagement for 401(k) Success (0910-5578), Charles Schwab, September 2010
Don't let Wall Street determine YOUR future.
Take back control of your retirement!