401(k)arma Lessons & Thoughts

- A 401(k) account doesn't fund itself
- 401(k) accounts represent freedom for the American worker, freedom that pensions and Social Security don't allow
- Get the company's 401(k) matching funds and max out if possible… the reasons are too numerable to list here
- Roth 401(k) accounts are becoming more popular, allowing participants to invest after-tax dollars that grow for years and are not taxed upon withdrawal
- The average worker changes jobs an average of 11 times, triggering waiting periods and interruptions in company matches. Rather than waiting six months or more to begin receiving the company match, 45% of all workers cash out their 401(k) when they change jobs. When you cash out your 401(k), you wind up hurting your 401(k)arma. See an advisor when its time to change a job or retire to help you through the process. Ask about rollover opportunities.

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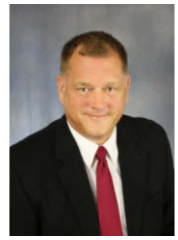

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FINANCIAL NEWS YOU CAN USE

401(k)arma

It's been said, "What goes around comes around" or "as you sow, so shall you reap". Well those sayings are the basic understanding of how karma, the law of cause and effect, works. Depending on one's actions, one will reap the fruits of those actions. The fruits may be sweet or sour, depending on the nature of the actions performed. Fruits can also be reaped in a collective manner if a group of people together perform a certain activity or activities. So what does all of this have to do with 401(k)s? More than you may think.

The original 401(k) plan—and its non-profit cousin, the 403(b) plan—"could be explained to employees in just a minute," insists Ted Benna, who first discovered Section 401(k) of the Internal Revenue Code, thanks to the Revenue Act of 1978. The original 401(k) program that he developed had only a "guaranteed fund" option and an equity fund option[1].

Even after passage of the Pension Protection Act of 2006, which gave employers the power to enroll new hires automatically into their 401(k) programs, up to 15% of new employees opt out[2]. In fact, nearly 60.3% of all American employees don't participate in their companies' 401(k) program at all.[3] So how can we all improve our 401(k)arma? Let's start by implementing the Dalai Lama's approach for good 401(K)arma:

- **Share knowledge.** A study by Aon Hewitt and Financial Engines revealed that 401(k) participants who get help with their 401(k) investment decisions see 3% better returns than participants who invested without any help.[4] Whether you're using target-date funds, professionally managed accounts, or simple advice you find online, your chances of improving your 401(k) returns stand to be much better with help.

- **Live a good, honorable life.** Then when you get older and think back, you'll be able to enjoy it a second time. Two important tools you have at your disposal are capital and time. If you're a 22-year-old just starting your career, you may not be earning much money. But the time horizon you have recommends that you be aggressive, investing primarily in equity funds through your 401(k). From 1926 to 2010, a common stock investment provided an average annual return of 10.3%.[5] And that 84-year period was wrought with wars, market crashes, recessions, depressions, stagflation—hardly a consistent stretch of economic boom times. Today too much money—4% of all 401(k) funds—is in money market accounts,[6] which typically yield below .03%.[7] That's no way to invest. Generally speaking, you should subtract your age from 100 and the difference represents the percentage of your portfolio that should be put into equities.

- **Don't let a little dispute end a good relationship.** You don't have to be an expert in behavioral finance to understand the concept of "herding." It's a concept we saw during the economic meltdown of 2008. September 29, 2008 the Dow Jones Industrial Average went down 777 points. The following week, it dropped another 1,874 points.[8] On September 17, 2008 alone, $140 billion was withdrawn from money market funds; crippling short-term lending and affecting long-term markets like stocks even more.[9] But those who invested, say, $10,000 into a Dow Jones Industrials Index Fund a year before the financial meltdown—when the Dow reached its previous all-time high—would today have more than $11,463.[10] Good reward for patience.

- **Once a year, go someplace you've never been.** Perhaps the most dangerous move you can make is to invest much, if not all, of your 401(k) contribution in your company's stock. You're already deriving 100% of your after-tax pay from your company, so why rely on the same source for so much of your retirement funding? There's loyalty, of course. But think about a company like Enron: The people who were wiped out by that company's fall were both the employees and the stockholders… and all too often they were the same people. A 401(k) account allows and encourages you to diversify. Don't miss out on that opportunity.

1) Market Watch, "Father of the 401k's Tough Love," November 22, 2011. 2) Market Watch, "401(k) auto enrollment tapers off," March 15, 2013. 3) Employee Benefit Research Institute, "The 'Big 'Picture," November 30, 2012. 4) Financial Engines, "401(k) Participants Using Professional Investment Help Continue to Do Better than Those Who Go it Alone," September 26, 2011. 5) eHow, "What Are the Benefits of Buying Stocks," 2013. 6) Investment Company Institute, "Frequently Asked Questions About 401(k) Plans," September 30, 2012 7) Forbes, "Your 401(k): Money Market vs. Stable Value," October 11, 2011 8) CNN, "Dow Jones Industrial Average Fast Facts," May 31, 2013. 9) About.com, "Stock Market History: The Dow Jones Industrial Average Closing History Since the Great Depression," May 31, 2013. 10) The Boston Globe, "Stock Market at pre-crisis levels, but may still on the sidelines," February 7, 2013. 11) CNN Money, "401k investors sue Enron," November 26, 2001. 12) Bureau of Labor Statistics, "Number of Jobs Held, Labor Market Activity, and Earnings Growth Among the Youngest Baby Boomers," July 25, 2012. 13) Center for Retirement Research at Boston College, "401k plans in 2010, and update from the SCF," July 2012.