

*If you're fortunate enough to have a 401(k), max it out! Here are five things to help you take full advantage of this retirement savings opportunity.*



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The background of the newsletter cover is a blue-tinted photograph of a hand holding a silver chess piece (a king) over a chessboard. In the background, there are stacks of US dollar bills. The text "INVESTMENT Strategy" is overlaid on the left side, with "NEWSLETTER" in a smaller font below "Strategy".

INVESTMENT  
**Strategy**  
NEWSLETTER

**Financial News** You Can Use  
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## FINANCIAL NEWS YOU CAN USE

# Investing starts with your 401(k)

### 1. Leverage the resources available to you

A study by Charles Schwab revealed one-third of 401(k) participants feel a lot of stress when choosing their 401(k) investments. While making these decisions do require a bit of thought, participants who receive help from a financial professional are twice as confident in making investment decisions than if they decide on their own.<sup>1</sup> Experts, like a financial advisor, can help you figure out what is best for you and your investment future.

### 2. Use the tools at your disposal

Two important tools you have at your disposal as an investor are capital and time. If you're a 22-year-old just starting your career, you may not be earning much money. However, as a 20-something, in general, you have upwards of 40 years to invest before retirement, and that can make a big difference. For example, assuming a 5 percent annual return compounded annually, an investor putting away \$50 per month starting at age 25 could accrue more than \$70,000 by the time they reach age 65 (compared to only \$40,000 for an investor putting away \$100 per month starting at age 45).<sup>2</sup> If you are over age 50, ask your benefits department about the catch-up provision that may be available with your plan. You can likely contribute even more.

### 3. Be patient

You don't have to be an expert in behavioral finance to understand the concept of "herding." It's a concept we saw in full flower during the economic meltdown of 2008. Remember that? On September 29, 2008, the Dow Jones Industrial Average went down 777 points. The following week, it dropped another 1,874 points.<sup>3</sup> Selling



begat selling. The Dow went from 13,000+ in the summer to the 9,000s in a matter of weeks—on its way to 7,545 the following February.<sup>4</sup>

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.<sup>5</sup> But it's all about timing, and investors who were able to stay patient until the Dow Jones returned to the 10,000s in October 2009<sup>10</sup>, then moved on to exceed 15,000 in May 2013<sup>11</sup>, were likely able to gain back at least some of their losses sustained during the economic downturn.

### 4. Stick with it

In the fourth quarter of 2012 there was a 28 percent increase in the number of 401(k) participants taking out loans against their account.<sup>6</sup> Taking out loans on your 401(k) account means you have less money working for you in a tax-deferred account.

Another bad habit is cashing out a 401(k) instead of rolling it over to a new employer's plan or an IRA. Considering that 10 percent of your funds are withheld if you cash out before age 59½, in addition to the 20 percent withheld on a federal basis, every dollar will turn into \$0.70<sup>7</sup> at best, and may seriously hinder your ability to retire.

### 5. Don't put all of your nest eggs in one basket

One common mistake investors make is investing too much of their 401(k) contribution in their own company's stock. Loyalty aside, 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.<sup>8</sup>

A 401(k) account allows you to diversify and has the potential to give your portfolio a better chance to manage volatility (as compared to portfolios with only one or similar types of investments).<sup>9</sup> Please keep in mind that diversification does not assure a profit or guarantee against a loss and that investing involves risk, including the possible loss of principal.

Remember, there are plenty of resources out there to help you get the most out of your 401(k). And if you change jobs or retire, you can also explore your available opportunities. The best place to start is with your financial advisor.

<sup>1</sup> Charles Schwab, "New Survey: Workers and their 401(k)s," August 2013. <sup>2</sup> LearnVest and Wall Street Journal, "Early Start, Big Benefit – Graphic," June 26, 2013. <sup>3</sup> CNN, "Dow Jones Industrial Average Fast Facts," May 31, 2013. <sup>4</sup> Macrotrends, "Dow Jones 100-Year Historical Chart," 2013. <sup>5</sup> About.com, "Stock Market History: The Dow Jones Industrial Average Closing History Since the Great Depression," May 31, 2013. <sup>6</sup> Society for Human Resource Management, "More 401(k) Loan Taking by Sandwiched Employees," April 22, 2013. <sup>7</sup> The Nest, "How Much Do You Pay in Taxes If You Cash Out Your Retirement Early," March 9, 2013. <sup>8</sup> CNN Money, "401(k) investors sue Enron," November 26, 2001. <sup>9</sup> MoneyGeek, "How Modern Portfolio Theory Works," July 24, 2013. <sup>10</sup> Housel, Morgan. "Dow 10,000: What's Next?" The Motley Fool. N.p., 14 Oct. 2009. Web. <sup>11</sup> Hwang, Inyoung. "Dow Climbs Above 15,000 on Stimulus Optimism, Earnings." Bloomberg.com. Bloomberg, 7 May 2013. Web.

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