

## Everything You Always Wanted To Know About Your 401(k), But Were Afraid To Ask

I love hearing people talk about wines. They use all manner of adjectives – depending on their personalities – to sound informed, erudite, or arrogantly unconcerned with their lack of discernment. It is quite similar to the authoritative tones used when discussions ensue regarding 401(k) investment decisions. Many who appear smart may personify the adage, “A little knowledge is a dangerous thing.” Women often admit, “I am embarrassed to say I really don’t know much about it. He takes care of everything.”

Several generic characteristics of wine may help us set the stage for basic investment distinctions. Wine usually comes in one of three colors – red, white, or rosé. Your 401(k) menu is likely composed of three asset classes – cash, bonds, and stocks. Marketing materials probably display a risk continuum. Cash, frequently offered as a money market or stable value fund, is represented as the least volatile asset. Bonds – or fixed income funds – fluctuate more than cash, so losses could be experienced from time to time. Stock funds, of course, will land at the top of the continuum to show they have the most risk.

As wine ages, it often becomes more valuable. The same principle applies to long-term investing designed to build retirement assets. The expectation is that employees will implement their portfolio choices, and then give them *time* to compound. Usually the ‘time’ required is at least five years. With our current lifestyle, five years can seem like an eternity. A potentially self-defeating temptation is the ease with which sound investment decisions can be changed. All it takes is a click on the benefits Web site - to change a fund to what’s ‘hot’ or from what’s not – based on the evening news. As Jonathan Clements of the Wall Street Journal wryly remarked, “If you want to see the biggest risk to your portfolio, go home and look in the mirror.”

Moving higher on the risk continuum, your 401(k) menu probably offers: government bond fund, bond (fixed income) fund, large cap (interpret that as company size) value fund, large cap growth fund, International equity (read that as stock) fund, mid – small cap value fund, mid-small cap growth fund, and possibly a real estate fund. A popular trend is to offer ‘Life Cycle’, or ‘Age-Based’ pre-set portfolios so employees don’t have to do their own picking and choosing. Russell Company and Wilshire Group, the two institutional pension advisors with *over a trillion dollars* under advice worldwide, allocate portfolios by mixing investments with different levels of risk. Their selected ‘mix’ is dependent on what level of volatility suits their client’s goals. In other words, they choose *complementary* funds designed to keep portfolio losses to a minimum when

times are tough in the markets – but still position their client to participate in profits when the financial markets are happily percolating.

Let's assume one of your retirement goals is to have a champagne pocketbook to enjoy. Two tools are available to jump-start your 401(k) nest egg. First, *max out* your contributions. This year, you can contribute \$15,500 – or \$596 per pay if you are paid bi-weekly. Those of us over 50 years old can add another \$5,000. If you have been with your employer for 15 years or longer – you may be eligible to top that off with an additional \$3,000.

The second tool supports the first. *Pay yourself first*. Before your check is direct deposited, make certain that you direct an appropriate amount of earnings into your tax-deferred 401(k.) Women should avoid expecting 'him' to take care of it, or anticipating a large inheritance from mom and dad to be your retirement plan. Take control. A recent survey indicated that the 'rich' save and invest more than 16% of all money that comes into their households. Imprinting that habit may assist all of us.

Fine wines emerge from vintners who take *time* to achieve the results they value. Growers understand that the variety of grapes grown – which may depend on the *risks* of weather, soil, and moisture – *complements* the making of wines with a particular taste such as sweet, dry, lighter, more complex, or fruity, to name a few. Investors who take charge of contributing the *max* to their 401(k,) and who are thoughtful regarding the investment risk of their fund selections, may gain momentum in building financial security. Just as most of us leave the cultivation of fine wine to the professionals, so may the hiring of a competent financial professional be among the best investments you could make. *E-mail me with your 401(k) questions!*

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