Where Should I Invest My 401(k)?

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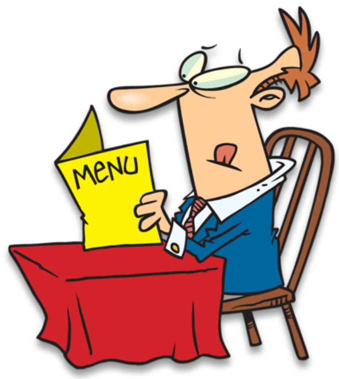

Anyone who's seen a menu of funds provided by their HR department knows how complicated and overwhelming a 401(k) can be. But don't worry—we're here to help you make confident choices for your retirement. While the investment menu range can be daunting, there are simple strategies you can utilize to take control of your retirement plan.

Where Do I Start?

As you look through the investments available, you'll notice that you aren't choosing individual stocks or bonds. Instead, retirement plans will offer selections of various mutual funds. The best advice is to keep things simple. You don't need to be invested in 15 different funds to have a successful and diversified portfolio.

If you can, find a handful of broad-market, low-cost, index funds for the two main asset classes: stocks and bonds. The key is to not get distracted by recent performance. Hone in on the easy-to-understand funds and use their simplicity to your advantage. It's easier to reduce anxiety when you truly understand your investments. This knowledge shields you from unnecessary panic when faced with financial news or inevitable market fluctuations.

Opting for a few simple funds can make it easier to rebalance your portfolio regularly and get your asset allocation back on target after market fluctuations. If rebalancing sounds like a chore, target-date funds can be a one-stop shop. Target date funds are investments that become more conservative as you approach a specified year.

While target date funds are sought after for their simplicity, there are some caveats to be aware of. Automatic rebalancing can be a great tool, but it doesn't consider your specific long-term goals or changing needs. If, for instance, you initially choose a target-date fund for 2050 and later decide to retire a decade earlier, forgetting to update the fund's date can lead to a mismatch between your investments and your actual goals.

Some target date funds offer investors limited, overly conservative investment options that may be more expensive than the do-it-yourself options. Keep in mind, not all target date funds are the same. Nevertheless, these are excellent options if you fully understand the underlying asset allocation of the fund and how it will change over time.

How Can I Identify Broad Market Index Funds?

The easiest way to do this is by looking at the name of the fund. The Names Rule requires that the fund invest at least 80% of its assets in the investment type, industry, and geographic location their name suggests. In other words, funds are required to put their name in plain language that can help investors understand what the fund does at a high level. A rule of thumb that will speed up your research: look for the funds that have "index" directly in the name (e.g., "Broad Market Index" and "S&P 500 Index"). These funds track the index the name suggests so they are easy to understand and typically have very low expense ratios, meaning they are very cheap to own.

Where Can I Find Help?

If you're feeling overwhelmed, you're not alone. Managing a 401(k) can be complicated and disconcerting. If you've considered the strategies outlined above and still feel uncomfortable, you have some options worth exploring.

First, see what free resources you have at your disposal. Reach out to HR or the custodian handling your retirement account. Ask for advice on what to do. Remember, this is one-off advice, so you may need to revisit these resources when you require assistance or want to make a change. If you seek ongoing guidance for your 401(k), consider teaming up with a financial advisor. While this isn't free, the peace of mind and services offered may be worth the cost.

In the past, there have been restrictions for financial advisors to assist with 401(k)s. Regulations forced them to the sidelines, but the game is changing. Nowadays, advisors can now manage and rebalance client's employer-sponsored plans (401(k), 403(b), etc.). This can take some stress off your shoulders, allowing advisors to handle investments and adjustments without requiring your time and attention.

If you're retired (or 59 ½ in many cases), you have another option: you can transfer your account (e.g., 401(k), 403(b), 401(a), 457) from your employer's plan into an Individual Retirement

Account (IRA), expanding your investment options and giving you much more flexibility. Since the building blocks aren't restricted to a particular menu, you'll have more options to build a tailored approach. This type of transfer also opens the door for a financial advisor who can help manage your discomfort and build a portfolio personalized to your goals.

The Bottom Line

When investing inside employer-sponsored plans, is it possible to order off a limited menu and still manage to build a quality portfolio? With the right mindset and research tools, yes! Depending on the investment options and your specific needs, start with low-cost index funds and bolster with additional funds if needed. Simplicity is key. If you understand and trust your investment strategy, you are more likely to stay the course.

Even simple strategies can bring about anxiety and fear. If you still feel overwhelmed, ask for help. Whether you schedule a meeting with us or another advisor, partnering with a professional can ease your anxieties and take some stress off your shoulders.