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Manage your 401(k), but don't market-time

Six tips can aid you toward a secure retirement

The run-up in stock prices this year could tempt even the most hands-off investor to wade into his 401(k) and make some changes.

The Dow Jones industrial average, Nasdaq and Standard & Poor's 500 indexes are each up more than 20 percent over the last 12 months. But experts suggest investors tread cautiously and avoid major changes aimed at timing the market.

"It's a retirement account. You are investing for not months or even years, but decades into the future," says Eric Tyson, author of *Personal Finance for Dummies*. "Most people, including most professional investors, are not very good at market timing."

Even if you're a set-it-and-forget-it investor, unless you've pulled out of stocks altogether — as some investors did right after the 2008 financial crisis — it's likely the stock portion of your 401(k) account has grown significantly in the last few years.

Data released recently from Fidelity Investments show that the average balance of its 401(k) accounts hit a record high in the first quarter of $80,000. That's up 8.4 percent from the same period a year earlier and represents an increase of 75 percent since the stock market hit bottom in the first three months of 2009, the company said.

In contrast, 1.6 percent of investors age 55 or older who eliminated stocks from their portfolios when stocks collapsed in 2008 and never rebalanced their holdings saw their portfolios grow just under 26 percent since the first quarter of 2009, Fidelity said.

Still, making periodic adjustments to your plan's asset allocation is a wise move and is part of remaining engaged with your overall retirement strategy.

Here are six ways to efficiently manage your 401(k):

1 Get the basics right: Don't leave money on the table. If your company offers to match up to a certain amount of your 401(k) contribution, make sure you're putting in enough to qualify for the maximum.

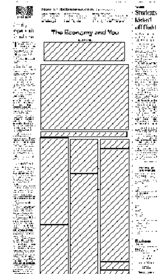
Once you have that covered, save as much as you can as early in your working years as you can.

How much? Experts vary on this, but a common benchmark is to set aside 15 percent of your pay, including any matching funds from your employer. Under IRS rules, the maximum contribution is $17,500 this year.

That means if your employer is matching up to 3 percent of what you put in, you need to pitch in 12 percent. If your employer's match is more generous, you can put in less, says Beth McHugh, a vice president of market insights at Fidelity.

2 Don't bank entirely on winning investments: The market rises and falls, and timing may not be on your side — just ask folks who began relying on their retirement savings as the market hit the skids in 2008.

One good way to maximize your savings is to put more money into the plan.



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"Those who continued to not just remain invested, but remained committed to making contributions, are the ones that were able to come out ahead in the end," McHugh says.

Since the first quarter of 2009, Fidelity's 401(k) account holders have, on average, contributed 8 percent of their pay to their plan. It was slightly higher before that.

3 Periodically assess retirement costs: Making sure your financial needs are met in retirement requires having a sense of what those costs will be. And not just the basics, but any travel or other major purchases. You'll also need to update that plan, particularly as you get closer to your post-work life.

By some estimates, retirees will need 85 percent of their pre-retirement income coming in from several sources, including Social Security, 401(k) plans and other retirement accounts, a pension or similar employer-sponsored plan, and personal assets, such as other investments, savings or real estate.

"If you're behind saving or want to retire at an earlier age, you may find when you crunch the numbers that to reach your goal, you should be saving 15 or even 20 percent," Tyson says. "If you're at a point in your earnings career where your earnings are relatively high but you don't think it's going to last, you don't want to keep working as hard, you may want to save 20 percent to 25 percent of your income during a certain period."

Fortunately, there are a bevy of online calculators that can help craft an estimate for how much you'll need to put away for retirement.

Look for these on the websites for large 401(k) plan managers such as Vanguard, Fidelity or T. Rowe Price.

A couple of alternatives: the AARP's calculator and Bankrate.com's.

4 Rebalance your asset mix: Experts recommend taking a look at your asset mix — how much you have invested in certain funds of varying risk, or say, the proportion of your 401(k) invested in stocks vs. bonds or other investments — and tweak them occasionally.

"Whether the market is up or the market is down, it's always a good time," says Philip Rousseaux, president of Everest Wealth Management Inc. "It's kind of an automatic way of always selling high and buying low."

Simply put, if you're heavily invested in a segment of stocks that have gone up sharply, you bring down your position on that a bit and shift the funds over to a segment that is undervalued.

Rousseaux recommends rebalancing at least on a quarterly basis.

Tyson, on the other hand, says every three to five years is just fine unless the market has undergone a significant downturn.

As a general rule, stocks are going to be riskier and more volatile in the short term, but less so over the long term. With bonds, it's reversed. They're less volatile in the near term, but there's a chance that they're not going to give enough of a return in the long term, sapping your funds for retirement.

5 Resist timing the market: Making major changes to your 401(k) to profit off a market trend can be risky, and experts suggest avoiding it altogether.

"Market timing changes people make are often made on emotional reactions to events," Tyson notes. "It's better to have an overall allocation and stick to that."

And if you do take a shot and miss, don't wait on the sidelines to jump back into the market.

"You don't want to compound that mistake by continuing to engage in more market timing," Tyson adds.

6 Play catch-up: A law passed in 2006 allows workers over 50 to beef up how much they contribute to their 401(k) plans and other individual retirement accounts. It's aimed at helping those workers closer to retire-

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ment age put more tax-deferred money aside while they're still working.

This can be especially helpful if you've incurred a big loss over the years during a market slump.

Alex Veiga,
The Associated Press

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