

Time to Review Your 401(k) Holdings?

This may be the time of year when your company gives you a chance to increase your 401(k) contributions. But *how much* to put in isn't your only decision regarding your 401(k) – you'll also want to look at your investment *mix*. Why? Because things change – and, if you want to get the maximum benefits from your 401(k), you'll need to make sure it still meets your needs.

When considering adjustments to your 401(k), think about two key factors: *the performance of your investments and the number of years you have until retirement*. Let's look at both:

- **401(k) performance** – The performance of the individual accounts within your 401(k) can affect the overall *balance* of your plan. When you established your 401(k), you allocated different percentages of your total portfolio to stocks, bonds, money market accounts, government securities, etc. Over time, these percentages can change – a lot. During the long bull market of the 1990s, the equity portion of your 401(k) may have grown to such levels that your portfolio was taking on a higher level of risk than you were comfortable with.

Now, though, the situation is different. From 2001 through 2003, the stock market has had mixed results, and 2004 has not been a particularly good year. So, within your overall portfolio, the value of stocks may be down, which means that your other 401(k) investments – especially your fixed-income vehicles – may have taken on a greater prominence.

This could be a problem. You need your 401(k) to grow, so that you can build resources for retirement. And to achieve this growth, you need significant exposure to *stocks*. Of course,

stocks are subject to market risk – including the potential loss of principal invested – but, over the long term, stocks have historically outperformed every other financial asset. (Keep in mind, though, that any stock's past performance doesn't assure its future results.) So, if your 401(k) is becoming "overweighted" in fixed-income investments, your progress toward your retirement goals could be slowed.

Review your 401(k), at least once a year to make sure your holdings still reflect your risk tolerance and need for growth. If you have high-quality, stock-based accounts, don't give up on them because of a down year – over time, good investments tend to reward patient investors.

- **Years until retirement** – You'll also want to review your 401(k)'s investment mix to make sure it is still suitable for your age level. When you're starting out in your career, you can afford to invest more aggressively in your 401(k), because you have many years to overcome any "down" periods. But in your last few years before you retire, you may want to shift some (but not all) 401(k) assets from stock accounts into fixed-income accounts. By making this move, you can "lock in" any gains you achieved from stocks and reduce the volatility of your overall account in the final years in which you'll contribute.

Start Your Review Soon

By reviewing your 401(k), possibly with an investment professional, you can ensure that your holdings are working together to help you achieve the retirement lifestyle you've envisioned. So the next time you get that 401(k) statement, take a close look at it – it's got an interesting story to tell.