



The Smart401k Guide to Retirement Plan Investing

Part 1 - The common mistakes people make in retirement plan investing.
By Scott Revare, CEO, Smart401k

Study after study has shown that the vast majority of retirement plan investors don't take the time or don't have the knowledge to make investing decisions appropriate for their 401(k) or 403(b) plans. The purpose of this series of retirement plan investing guides is to increase your awareness of good investing practices.

Many people rely on their common sense or the guy in the cubicle next door to help them make decisions regarding their investments. Others have some investing knowledge, but lack the time to do the research and monitoring necessary to stay on top of their investments. Our hope at Smart401k is that with this additional information, you will at least know more about what is necessary to be a successful investor and will take the actions necessary to stay on top of your investments in the future.

Many people learn best by learning from their mistakes. In this Guide, we point out the most common mistakes retirement investors make, and discuss how to avoid them.

Mistake Number 1: Not saving as much as you can.

This isn't really an investing mistake, but you can't invest what you don't have. Industry studies have shown that two thirds of people think they are saving enough for retirement, yet in reality only about a third of them are saving enough.

Depending on your age and savings level, even a small (1 or 2%) increase in savings over the years can make hundreds of thousands of dollars difference by the time you retire and start to tap your account. Try to increase your savings rate whenever you get a raise. Try to put away at least 10% of your pay into your plan.

Mistake Number 2: Not diversifying your money.

Again, study after study shows that people don't know how to properly diversify their investments. Somewhere between 30 and 50 % of people tend to be too conservative, staying only in bonds and money market funds, even though they are decades from retirement. Others shun small company or international mutual funds because they think they are too risky. Still others spread their investment money only to the funds that performed the best last year, ignoring what kind of fund's they are in. This can lead to having lots of funds, but concentrated into the same fund categories. Just having money in several funds is not diversification. Overinvestment in Company stock is another cause of not diversifying and is discussed later in this Guide.





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Spreading your money across different types of investments (Large and small company mutual funds, Value and Growth fund types, International and domestic funds, and fixed income/bond funds) will pay off for you in several ways. First, different types of investments behave differently over time. This actually helps you to minimize your overall portfolio risk, as you are not putting all your eggs in one basket. It also helps you to consistently participate in the market as different types of investments grow faster than others at different times.

If you know nothing about diversification and don't want the hassle of tracking your investments, put all your money into a target retirement date fund. If you want to be more involved in your investment and want personal attention, customization, and potentially more diversification, utilize a service like Smart401k.com.

Remember that diversification is not buying a little bit of every fund in your plan. You need to know what types of funds you are investing in.

Mistake Number 3: Not rebalancing your investments.

The concept of rebalancing is new to a lot of people, and is infrequently practiced. Past studies have shown that only about 1 out of 6 people ever change their investment allocations in a given year. Yet it is one of the most important maintenance items to do for your retirement investment.

Rebalancing is simply buying and selling your investments to return to your original target allocation percentages. For example, if you have one fund that gained 30% in three months and the rest of your investments gained only 5%, your fast growing fund is now a greater proportion of your portfolio than it was originally was. Simply sell some of your fast growing fund, and buy more of the slower growing funds. It seems counter-intuitive, but it actually enforces the practice of buying-low/selling high, and it keeps your overall investment risk level stable.

Mistake Number 4: Owning too much of your Company stock.

Think Enron. You are already relying on your employer for your job, and may be accumulating company stock through other means outside your retirement plan. Don't put more than 5-10% of your retirement plan money into company stock, no matter how great you think your company is. It will still most likely be your most risky retirement plan investment.





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Mistake Number 5 : Not monitoring your funds.

Many people treat their retirement plan as a “set it and forget it” investment. A Mutual Fund’s performance will change over time. A fund that has performed well for one quarter or year does not mean it will perform well the following year. Very few funds perform consistently well year after year. In addition, funds frequently close to new investors after a period of time, and new funds can be periodically offered in your plan.

One of the most widely held funds in all retirement plans - Fidelity Magellan - shined brightly in the 80’s and early 90’s, but has underperformed its peers for the last 10 years. So why, besides its name recognition and the fact that it had superior performance 10 years ago, is it still a popular fund? Fidelity has many excellent funds to choose from aside from Magellan.

Once you have diversified and you practice rebalancing, make sure your funds consistently perform well compared to their peers. A peer of a fund is another fund in its same asset category (e.g. Large Cap Value, or Small Cap Growth). Quarterly retirement plan statements often list how funds do against their peers. Funds must be monitored on a regular basis, as a fund that performs well one year, may not perform as well the next year. Don’t buy a fund simply based on its brand, or last year’s performance. Also consider other factors such as its manager, its risk level, and past 3, 5, and 10 year performance against peers. No one Mutual Fund Company has a lock on all the good funds.

How Smart401k can help you avoid these common mistakes.

Lack of investing know-how and lack of time are the biggest causes of retirement investing mistakes. Smart401k has dedicated unbiased advisors that will provide you with a diversified investment recommendation tailored to your situation and your fund choices. We will monitor your employer fund choices and provide you with regularly updated fund recommendations and allocations that fit your current needs.

We will remind you to come to the site to get updated recommendations, and will provide you with tools to determine how to rebalance your portfolio. Whenever you have a question, our advisors will personally answer your emails and calls about your investing situation. We will also educate you about investing.

Smart401k -We worry about your retirement plan investment so you don’t have to.

