Great outcomes. Done well.

BAIRD

Is your 401(k) still working toward your retirement goals?

Wealth Management Insights September 2012

There's a reason 401(k) Day is observed in September. Late in the year – especially during or soon after periods of market volatility – is a good time to revisit your employer-sponsored retirement savings plan – and make sure your investments are still aligned with your long-term goals.

It can be easy to get caught up in short-term market fluctuations and make emotional investment decisions.

What You Should Know:

1. Asset allocation is important.

The way you weight stocks, bonds, cash and other assets within an investment portfolio is called asset allocation. Because different assets have different characteristics, they often behave differently. Within a 401(k) or other employer-sponsored plan, the right mix of investments with differing characteristics can potentially reduce the overall impact of volatility over time, but it is not a one-time process:

- Asset allocations within a retirement savings plan are based in large part on your return objectives, risk tolerance and time horizon, and those things can change – particularly if you experience a significant life event such as a change in your family or health.
- Because asset classes often perform unevenly over time, periodic rebalancing is recommended to keep your investments close to your target allocation.

2. Don't underestimate diversification.

Correlation is a measure of the way different specific investments behave under similar market and economic conditions. Highly correlated investments tend to behave similarly, which can amplify the impact of cyclical volatility or weakness in a specific market or sector. Diversification involves the deliberate selection of investments with lower or negative correlation, which can help mitigate this effect.

- Just because an investment vehicle in your 401(k) consists of multiple investments bundled together doesn't automatically mean you are well-diversified. The philosophy and specific holdings of each investment vehicle should be examined.
- The information you need to make an informed investment decision within your 401(k) can be found in several places, including the investment managers' websites and prospectuses and through third-party investment analysts.

3. Keep things in perspective.

If you monitor your 401(k)'s performance too frequently, it can be easy to get caught up in short-term market fluctuations and make emotional investment decisions. Your employer-sponsored retirement plan is intended to be a long-term savings and investment tool. And ideally it should be just one component of a larger retirement strategy that may also include:

- Social Security
- A SIMPLE or Roth IRA (depending on your current and anticipated future income)
- Investments designed to provide the yield (income) you will need to meet future expenses

What you should do now:

If you are already working with your Financial Advisor toward your retirement, we recommend you schedule a meeting soon to look at all of the components and bring the most recent statement from your employer-sponsored plan, as well as a list of the investment options it offers. And if you haven't started talking to your Financial Advisor about retirement, you should do so soon and talk specifically about the income you will need after this major life transition. ■