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MONEY & MORE

Retirement investing easy with a 401(k)

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Investing for retirement ought not be scary.

Granted, the process is not the easiest thing you'll ever do. But it is not overwhelmingly complex.

Think of it this way: Complexity is when you learn to play bridge. Long-term investing is more like staying on a healthful diet — it goes on forever, and it requires persistent effort.

For many people, the first step is the hardest. It is the one in which you start

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saving some of your money every payday. This may require you to cut back spending for immediate gratification. It certainly requires a personal commitment to put money away and to leave it there, no matter how much you want to spend it all now.

Investing is, for many people, the fun part. That's when you make your money work for you.

Additionally, there are many reliable sources of guidance for long-term investing decisions.

One of them is Mike Scarborough, the proprietor of an Annapolis, Md., firm that manages \$1.7 billion worth of 401(k) retirement accounts for families and individuals.

Here are seven steps he recommends for retirement investors:

■ **1. Participate in company-sponsored investing plans.** "Ten or 15 years ago, it was common to see people

put off their investments in a 401(k)," Scarborough said. "Today a lot of young people have gotten the message: You should begin as soon as possible."

The reason: Compounding greatly increases the returns you get from investments held over a longer period. Suppose you invested \$1,000 in a tax-deferred account and earned an 8 percent annual return. In 10 years, you would have \$2,159. In 20 years it would be \$4,661, and in 30 years it would leap to \$10,063.

■ **2. Put in at least enough to grab all the matching money your company puts in.** Companies with 401(k) plans typically put in 50 cents for every \$1 a worker contributes, up to 6 percent of the employee's salary.

"That's free money," Scarborough said. "Take all of it that the company is offering."

■ **3. Don't invest too much in your company's stock.** "The maximum investment should be 10 or 15 percent of your portfolio, and that's on the high side," Scarborough said.

■ **4. Don't borrow against your plan.** It is true that any interest on the loan is paid right back into your account. But the interest is taxable.

Beyond that, you lose the earnings your money would have made if you left it in the account.

Kyle H. Flynn, a certified financial planner in Atlanta, pointed out another pitfall: "You have to have the discipline to pay it back. If you don't, you are jeopardizing your future." In some circumstances, an unpaid loan balance can turn into an early withdrawal, Flynn said. That means you will have to pay both income taxes and a penalty.

■ **5. Understand your time horizon.** "It is long-term, very long-term," Scarborough pointed out.

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Also, if you can select a low-cost index fund, use it. "I think that using index funds as the core of a portfolio makes sense," said Scarborough. "But to index your whole savings plan to one index is foolhardy."

■ **6. Rebalance as necessary.** Suppose you want 50 percent of your investments in large-company stock mutual funds.

The booming stock market may have pushed that allocation far beyond 50 percent. In that case, you can pull a portion of your money out of the large-cap fund and divert it into other, not-so-fast-growing categories.

In a tax-deferred account such as an IRA or a 401(k), there is no tax penalty for this buying and selling. Scarborough warned, however, that fund managers may impose a penalty for too-frequent switching.

■ **7. Don't panic.** If the market takes a dive, don't cash in all your stock investments. Remember, these are long-term investments.

"I see a lot of people panic when the market drops 10 percent," said William J. Kring, a certified financial planner in Atlanta.

"What you're talking about is market timing, and that never works. The market goes down and you get out. Then the market goes up and you're still out. Getting out is easy. It's much harder to convince yourself to get back in."