

BANKING CAREER FEATURE



Don't Let an Unwatched 401(k) Get Away From You

[By Douglas T. Charney]

You have likely been in this familiar situation: you finally qualify for your company's 401(k) plan. You meet with the company-appointed 401(k) plan administrator, decide how much of your paycheck to contribute, and select your asset allocation. Then you never think about the investment again.

And why should you? After all, you're a long-term investor. You chose a growth investment and the person administering the plan clearly explained it to you. So you're fine, right?

Wrong!

Even if you chose a good growth investment, if you let that investment remain without periodic examination until you retire, you could be in for a rude awakening when retirement comes; you may not have as much money as you had hoped. Additionally, just because the company's 401(k) plan administrator *explained the investment to you* doesn't mean it is *the right one for you*. Since the plan administrators are compensated for the 401(k), they're not allowed to give investment advice. They are simply there to present the facts of the plan. Most people don't know this fact and, as a result, they're in investments that may be on the wrong side of the market and they don't even know it.

Your personal financial advisor can give advice on your 401(k) investment choices. Many financial advisors and even the American Society of Pension Actuaries agree that as you age and your life changes, you should be changing your asset allocation. Unfortunately, many investors never even look at the quarterly performance reviews they receive so they have no idea how their money is actually doing.

If you want your 401(k) plan to perform the way you need to reach your retirement goals, then you must stay on top of it. Sound hard? It's really not. Follow these simple guidelines in order to keep up to date on your plan:

1. Monitor the highs and lows.

Most people would like their money to grow at 20% year after year. But that's simply

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not realistic. To tell if your 401(k) asset allocation is working, you need to take a look at its relative performance. If your 401(k) is well diversified and the market goes down, you should not be affected that much. Likewise, if the market goes up a lot, you should see some gains, but not a tremendous amount. The goal is to see steady gains over time. If you're seeing huge fluctuations in your 401(k), or no growth at all, then you likely need to rethink how your plan is set up. Your financial advisor can help educate you and help you set up the proper asset allocation.

2. Consider taking advantage of your company's 401(k) match.

Many companies offer some sort of 401(k) match. That is, the employer "matches" your plan contribution up to a certain percentage. Unfortunately, many employees don't take advantage of this benefit. In effect, it's like they're refusing a portion of their compensation. Find out if your company offers this benefit and then make sure you're set up to take advantage of it, if possible.

3. Think about investing in your own company in moderation.

Some companies encourage their employees to buy company stock. As a result, employees' portfolios may not be diversified at all. They're overloaded in one investment and they have no plan in place should the

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company's stock go down, or should the company go bankrupt. Some companies give a bigger match when you invest in the company's stock and not as much when you invest in other stocks. Regardless of the reason for investing heavily in your company's stock, think twice about it. Remember what happened at Enron. Many of those employees put all their retirement money into the company's stock only to lose it all when the company went under.

4. Stay abreast of important changes.

Every year the 401(k) rules may change. Sometimes the changes are small and minute; other times, the changes are many and monumental. To make matters more confusing, the changes can happen any time of the year. If you're too busy to keep track of all the changes, then stay in contact with your financial advisor. He or she can keep you updated and can help you adapt your 401(k) to the many changes that occur. Additionally, when the company-appointed 401(k) administrator comes to your office to review the plan with everyone, make sure that you go to that meeting. Too many employees do not attend these visits, thinking that since their plan is already set up, they have no reason to attend. In reality, the meeting with the 401(k) plan

administrator is just as important as your yearly performance review (and you wouldn't miss that meeting, would you?). During these 401(k) meetings you can find out such things as changes to the employer match and 401(k) law changes. Remember, your retirement may be the biggest investment you'll ever make in yourself so take these 401(k) meetings seriously and go to them.

5. Consider "collective investment funds" versus similar investments strategies.

There seems to be a growing trend towards "collective investment funds." These are pooled assets from many different companies that buy stocks and bonds. Common two decades ago, collective investment funds may regain popularity because they may be less expensive for companies to offer. These funds are assembled by banks, trust companies, and investment firms for the 401(k) market, and they may be administered by just about any financial firm, from a large investment company to the local bank down the street. If your company offers this type of investment vehicle, get the details about it, including the potential risks, and talk to your financial advisor to see if it's a good choice for your financial goals.

Take Control of Your Financial Future Before It Is Too Late.

The bottom line is that your 401(k) plan is your future. Just as you wouldn't ignore your professional future by passing up job promotions and not staying on top of industry trends, don't ignore your financial future by not monitoring your 401(k). Sit down with your financial advisor, do a financial plan, and project out whether you'll have enough money when you retire to meet your long-term goals. For many people, this is an eye-opening experience that gets them to see the value of watching their 401(k). Additionally, work with other professionals, such as your tax professional and 401(k) provider, to make sure you're maximizing your investment.

Remember, your 401(k) is one of the best investment tools you have. Make sure you make the most of it and don't neglect it. Your financial future could depend on it.

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