

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

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401(k) Day, typically celebrated during the week after Labor Day, is normally a good reminder for those with employee-sponsored retirement savings plans to review their investments and make sure they're still aligned with their goals. This year, however, market volatility has had many investors monitoring their portfolios' performance closely. Such periods can be emotionally exhausting, but they can also help you determine if your investment assets are properly allocated and diversified to help you weather inevitable market shifts.

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What You Should Know:

1. Asset allocation can make a difference.

Asset allocation refers to the way you weight stocks, bonds and cash in your portfolio. Within a 401(k) or other employee-sponsored plan, this involves the selection of investments comprised of these asset types based on your return objectives, risk tolerance and time horizon. Some things to keep in mind:

- Different assets have different characteristics. For example, bonds may be historically less volatile than stocks, but average returns may be lower.
- Proper asset allocation can potentially reduce overall volatility and the likelihood of making an emotionally driven decision based on weakness in any one asset class.
- Your asset allocation should be revisited over time, especially if you experienced changes in your current situation, retirement goals or time horizon.
- Even if your situation hasn't changed, you may want to rebalance your 401(k) to its target allocation regularly, as uneven performance among asset classes over time can change your weighting. ▶

2. Diversification should be considered.

Although the concepts are similar, asset allocation focuses on broad portfolio structure based on the differences between asset classes, while diversification is intended to minimize the correlation or similarities in the behavior of specific investments you hold. Most 401(k) plans offer tools to walk investors through asset allocation, but diversification can be easy to overlook:

- Investments with high correlation tend to behave the same way under the same market conditions. Holding investments with lower or negative correlation to one another ideally helps to insulate against cyclical volatility or weakness in any specific sector.
- Simply holding investments in several different companies, even those within different asset classes, doesn't automatically mean you are well-diversified. The philosophy and specific holdings of each investment 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. You may have other options.

While proponents of asset allocation and diversification can point to historical performance when discussing the potential

merits of these strategies, some critics argue that increased interconnectedness among global markets has diminished the value of these approaches. Both may be correct. However, the strategies themselves are evolving to become more nimble and flexible:

- Some employers are introducing alternative investments – which can include commodities, managed futures, currencies, Treasury Inflation Protected Securities, real estate, REITs, private equity and hedge funds – as options for their plans.
- Alternative assets generally exhibit lower correlation to traditional investment asset classes but can also entail significantly greater risk.*
- If your plan's investment options are too limited for your needs or preferences, you may be able to roll your 401(k) assets over into a self-directed IRA. Even if you can't, you may consider contributing less to the 401(k) and opening a separate IRA for greater flexibility.

What You Should Do Now:

Times have definitely changed for investors, and so should the way you think about the principles you may have used when you built your 401(k). Your financial advisor can help you evaluate your current holdings to determine if they are aligned with your goals. ■

**Alternative investments by themselves can entail extremely high risks, which are generally not suitable for most investors. However, utilized as a small percentage with an already diversified portfolio, they can help to reduce market risk. Factors such as your personal situation, investment time horizon and income liquidity needs should influence your decision when evaluating alternative asset fund options and their appropriateness for you.*

Asset allocation and diversification neither guarantee a profit nor ensure against a loss in a declining market.