



FinishStrong by Design™

A newsletter designed to help you tackle the most pressing issues in today's increasingly complex retirement plan world.

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Why Should I Stick to My (Investment) Plan?

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As we have visited with professionals, business owners and their employees regarding their 401(k) Plan investments over these past few months, we've heard a near-universal "ugghh". No doubt that most people's account balances have shrunk, some more dramatically than others.

Many people have been tempted - in light of recent economic and financial events - to take one of the following actions:

- Reduce or discontinue their contributions for a period of time, or
- Shift current plan balances to a more conservative investment mix.

It is possible that, for many people, neither of these actions is appropriate. Furthermore, it is possible that these actions may in fact thwart one's opportunity to utilize "these times" for their own personal advantage.

The following is an excerpt from a phone call received from one of our 401(k) participants earlier this year -

I want to believe that I should stick to the investment plan that we've devised - but I have to tell you, I am struggling with that. I've got all my 2008 statements here in front of me, and I can see that I started last year with just over \$55,000 in my account - but ended at \$38,000. This despite having contributed over \$3,200 of new money over the course of 2008! By my math, this equates to a drop in value of about 31%. And to make matters worse, you guys

keep sending me these quarterly statements which highlight my rate of return for the past quarter. In the first quarter, I lost 8.6%, then in Q2 we "only" lost 2.3%. This followed by a drop of 10.5% in Q3 and finally - boy did we end the year with a stink-bomb - a drop of 19.8% in Q4. I desperately want to keep believing, but at this point my feeling is that this is clearly NOT working and we need to change something. What do you think?

Sound familiar?

We empathized with her situation and told her that it was all too normal for these times. We then asked for permission to set emotions aside - in order to look at some more facts. She agreed.

"Do you recall this notion of Dollar-Cost Averaging that we've discussed in the past?" we asked. Turns out she did recall the phrase, but had not connected its relevance in this situation. Dollar-Cost Averaging simply means continuing to make consistent, systematic contributions to your investments at regular intervals. She had done this, unwaveringly.

Additionally, she had not changed her investment mix - we had previously worked with her to determine a broadly-diversified portfolio with an 80% allocation to stocks was appropriate to help her reach her long-term objectives. Many of these stocks - whether domestic or international, growth or value, or small, medium or large - had decreased in value 30%, 40%, even 50% over the trailing 12 months. Yet even considering 2008's dismal performance, the historical return on stocks far outpaces bonds, U.S. Government securities, and cash.

Then we considered the number of shares in her account - unfortunately not highlighted on page 1 of her quarterly statements....we had to dig deeper, into the supplemental pages to find the data. It was then that we determined that her shares had increased by 21% last year! "So what," she said.

For this 38 year old employee with 12 years of service with her employer, a 21% share increase in her 401(k) account in only one year is a very big deal, for two reasons! First, based upon considerably more shares, the stock market does not have to return to its "high water mark" for her to recoup the "lost values" in her account. Second, upon retirement, most experts recommend an employee withdraw no more than 4%-6% of her account value per year, so as to not deplete principal. Since total account value = the number of shares in an account X the current price per share, the share count is one of the two most critical factors in determining how much income your 401(k) account will generate in retirement.

Thus, by "sticking to her investment plan" - both in terms of continuing to Dollar-Cost Average and maintaining an appropriate, broadly-diversified investment mix - she will be rewarded handsomely in the long-run.

"Oh, I think I get it", she said. "I feel much better now. I think I should continue to stick to my plan." We agreed.

The Bottom Line -

Various financial companies - banks, brokerage firms, mutual fund companies, etc. - are legendary for the marketing "spin" they create. However, Dollar-Cost Averaging is not spin; rather, it's just math.

Continuing to make regular, systematic contributions to your 401k right now is essential. Furthermore, maintaining an appropriate investment mix - consistent with one's long-term objectives - is equally essential.

Do your Employees know this? Is your current Retirement Plan Advisor really "in the game"? Triune is. We hope you & your Employees find this briefing on-point and evidence of this. We would be honored to help you review the Retirement Planning education and communication that your Employees are receiving during these difficult times.

Please contact us anytime at finishstrong@triunefp.com or call 913-825-6100. We are here to serve you.

Until next time,

Geoff

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