Provided by Investor's Capital Management www.feesonly.com

HOW TO MAKE THE MOST OF YOUR 401(k) PLAN

Let's get one thing straight: 401(k) plans, and similar employee-funded retirement plans, are here to stay.

These plans have been battered by the sour stock market of 2000–2002, corporate scandals, and the mutual fund scandals. Despite this, employee-funded retirement plans, in one form or another, will remain the primary source for building retirement assets for millions of workers. Here are eight key ways to make the most of your 401(k).

1. Join. One in four eligible workers doesn't participate in employer's 401(k) plan, according to a recent survey by Plansponsor, and participation rates have declined the past two years.

2. Hold steady or even increase contributions. Many workers have reduced their 401(k) contributions because of the difficult economic times or their fear of the market. For example, a *New York Times* article early in 2003 profiled a 401(k) investor who had cut back his contribution from 15 percent of his paycheck to a mere 5 percent because he'd grown weary of the market's decline and because he felt "the market's not really picking up anytime soon." By the end of 2003, however, large-cap stocks had rallied over 25 percent for the year, and the Nasdaq was up 50 percent.

That's the beauty of steady dollar-cost-averaging in a 401(k) plan. When stocks are down, you're able to buy more shares for the same amount of contribution dollars—with the idea that they'll eventually grow in value, while at the same time your older "down" securities will regain value as the market rebounds. The key is to not have money invested that you will need in the next few years.

3. Make the match. At the very least, contribute enough in your 401(k) plan to meet the minimum company match—typically three percent of salary. This is free money! Though some employers have suspended matches, most are maintaining their previous match percentages.

4. Create an investment plan. One reason many eligible 401(k) plan participants either don't join or bail out of their plan, or reduce their contributions, is that they don't have an overall investment plan. By having clear goals, investment objectives to

reach those goals, and an understanding of investment risk and your own tolerance for risk, you are less apt to get caught up in the temporary ups and downs of the market.

5. Diversify…maybe. If most of your investment portfolio is tied up in your 401(k), it's even more important to diversify your account. Yet many 401(k) participants concentrate their investments in only one or two investment options at most, usually large-cap stock mutual funds or fixed income.

That advice may change if your 401(k) is part of a much larger investment portfolio. The reason is that many 401(k) plans offer a limited range of investment choices, so you might need to leave your 401(k) mostly in large-cap and fixed income while you use other investment vehicles, such as taxable accounts, for alternative investments such as real estate investment trusts, small-cap stocks and international funds.

6. Don't overload on company stock. As Enron illustrated, loading up your 401(k) primarily on an employer's stock can be disastrous. Both your job and your retirement are riding on a single employer. Financial planners typically recommend keeping company stock to no more than 10 to 20 percent of your account's value. But it can be difficult to keep the percentage that low if the company match is only in employer stock and you're restricted as to how soon you might sell it and buy other types of investments. Again, you may have to diversify your overall portfolio by buying other assets outside of the 401(k) plan.

7. Avoid borrowing from you plan. The first drawback from borrowing is that you will likely reduce the ultimate size of your 401(k) nest egg because you're hurting the opportunity for the money to grow tax deferred. You also run the risk of facing taxes and penalties if you fail to repay the loan—say, due to being laid off.

8. Don't cash out. A recent survey by Hewitt Associates found that 42 percent of employees taking 401(k) distributions in 2002 cashed out of their plan when changing jobs. This normally results in taxes, possibly penalties, and definitely the loss of tax-deferred growth.

March 2004— This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by Investor's Capital Management LLC.