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Market Watch

Time to take stock of retirement plans

By STEVEN E. PARMELEE

Anyone owning corporate stock is well aware of the stomach-wrenching volatility in the Dow Jones industrial average since its euphoric high last October. Obviously, now is a good time to take a new look at your personal portfolio. Even if you are not certain of what – or whether – to buy or sell, careful analysis is immediately required.

Many people have the majority of their retirement funds tied up in corporate-sponsored 401(k) plans. As a result, many participants are realizing those retirement funds are in just as much jeopardy as the personal portfolio.

Participants may be calling their employers' human resources departments or other executives to complain about money lost as the stock market declined. This might be a good time for executives charged with overseeing those plans to take a fresh look at what may be a too costly, poorly performing retirement program.

If the vendor providing a company's 401(k) investments hasn't stopped by in weeks – or even months – that alone may be a wake-up call for the president or CFO who may be personally liable if there is poor documentation about how the firm's 401(k) vendor was chosen or monitored.

A single disgruntled employee can turn a disturbing investment return into a corporate nightmare.

One quick way to reduce the personal liability of the corporate executive charged with selecting the 401(k) vendor is to share the fiduciary responsibility with the vendor. Unfortunately, brokers won't do that. Independent 401(k) advisers often will.

Too many 401(k) plans, for example, have been hit because of reliance on the acumen of an investment adviser. Did the adviser pick the right mutual funds and stocks? Does the adviser have the right mix of industries represented in the portfolio?

Investments, whether in a 401(k) or a personal portfolio, can stale quickly. They may have been on target when put in place, but unless they were closely monitored, and regularly modified, they are likely far from adequate at present. Simply signing on with the highest performing mutual funds at the outset is a prescription for eventual failure. It's rare for any fund to remain a top performer for very long. Then, deduct from performance the average long-term inflation rate of 3 percent and the result can be very disturbing.

Unfortunately, there really isn't a good alternative to the stock market.

Between 1926 and 2004, the average annual return on blue-chip stocks was 10.4 percent, far outperforming bonds (5.9 percent) and U.S. treasury bills (3.7 percent), according to Ibbotson Associates. The reason is simple: In a capitalist system, open markets reward risk, and stocks involve more risk than bonds or T-bills. Of course, over a short period of time stocks can do far worse than safer investments – since October, for instance. That's why you need to have a long-term outlook to invest in equities.

Especially for those on a fixed income, staying on the sidelines too long will eventually cause inflation to slowly flatten your nest egg. Of course, rather than trying to select individual winning

stocks, mutual funds – or even baskets of mutual funds – can be a risk-reducing alternative.

Some people, faced with a confusing multiple of alternatives under their corporate 401(k) plan, elect a “safe” option and simply leave their investments in cash. Those people will unlikely have enough money for retirement. Inflation will eat away their buying power significantly.

Clearly explaining alternatives is critical so that everyone understands the benefits, risks and rewards of sound investment planning. A 401(k) plan should be part of a company’s recruiting tools. That means it must be easy for participants to understand, offer alternatives for different stages of life and, above all, show long-term results that exceed both inflation and what one might expect through other investments.

Steven E. Parmelee, an accredited investment fiduciary auditor, is president of **Westport Benefits Group** in Westport. Reach him by e-mail at sep@westportbenefitsgroup.com.