

FIX THE 401K

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We have received many phone calls and e-mails from investors regarding the poor performance in their 401k plans. Unfortunately what we have discovered is that many plans are not diversified enough, they are under funded, and the fees being charged are off the charts. 401k plans tend to fall under the “*set it and forget it*” sales process that brokerage firms love.

John Wasik, columnist for Bloomberg put together a list of things to look out for:

It's easy to tell if your plan isn't performing well. At the very least, you should be earning close to the average returns of the stock and bond markets. Because employees are being gouged by expensive funds within a plan, commissions and bad management, many plans may be falling short of these benchmarks. One immediate trouble spot is a plan sold by a brokerage house or insurance company. Brokers load plans with their own proprietary funds that they manage in-house instead of lower-cost generic funds, poor performance is almost guaranteed because the returns are low and the fees high.

I find it revolting that most people are alerted that their company is offering a 401K through an inter-office memo that tells them to be in the conference room at a predetermined time where they will listen to a sales pitch from some broker that will be making residual commissions from now until eternity, with no work after you and your colleagues sign on the dotted line. The insanity of deciding the asset allocation model for your 401K plan based on a 5 minute 10 question quiz is not my idea of being a good fiduciary for your client. The broker and company that set up the 401K plan for your business or place of work should be on a first name with everyone at the business. Employees shouldn't be relegated to some call center. They are investing their hard-earned dollars and should get advice.

A 401k plan is a major part of an individual's financial plan, yet most brokers do not help their clients allocate these vehicles or even have any knowledge of what is in them. We have discovered that most investors end up owning essentially the same stocks and mutual funds more than once over simply because their personal advisor did not pay attention to their 401K. Why? Because he or she is not making any money off it. If the commissions and fees from the 401K plan are going to the guy that “*set it and forget it*” why should your broker care?

I was not surprised when estimates came out this past month that over \$30 billion was lost by investors for failing to contribute to their 401K plan. Many employers match or do a partial match for employees who contribute and when one fails to contribute they miss out on free money. \$30 billion worth of free money. I would like to invite those people who fail to contribute to their 401K plans to visit our website and play with our “*magic*” compounding calculator. The earlier one starts to save the less you have to save.

It is time to take control of your 401K people! We are helping investors around the country put a little pressure on their employer in getting a decent plan. If you could save your boss or yourself (if you happen to be the boss) thousands of dollars a year in administrative costs, while improving options and performance would you do it?