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Financial Matters

**SPECIALIZING IN FINANCIAL MANAGEMENT AND INVESTMENT PLANNING
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What Should You Do with Your Retirement Plan?

While how individual retirement plan participants have been affected by the crisis varies according to account balances, asset allocation, and job tenure, all participants share a common concern: How long will it take for end-of-year 2008 balances to recover to their beginning-of-year 2008 levels? According to EBRI, at a 5% equity rate-of-return assumption, the recovery time for the *median* individual with the longest tenure with their current employer would be nearly two years; at the other end of the spectrum, in the 90th percentile where participants suffered losses greater than 25%, the recovery period would approximately five years. Of course, if the equity rate-of-return drops to zero for the next few years, EBRI projects the recovery time to increase to approximately 2.5 years at the median and nine to ten years for those in the 90th percentile. EBRI's February 2009 Issue Brief, *The Impact of the Recent Financial Crisis on 401(k) Account Balances*, was based on the EBRI/ICI database of more than 21 million retirement plan participants.

What you should do in the meantime depends largely on your age and retirement goals. For plan participants in the 20 to 30 year-old range, the down market is a buying opportunity since they have plenty of decades until retirement. Conversely, for employees with 20 to 30 years on the job who are closing in on retirement, steep losses may mean delaying retirement by a year or two. In fact, a decade ago, those between 62 and 65 years might have been in an accepted retirement age range. The recession, combined with increasing longevity, has today's retirement age range between age 66 and 70. All investors should, however:

- **Consider rebalancing.** Over time, all portfolios become unbalanced as the riskier asset classes tend to outperform the more conservative bond and cash components. However, serious market declines can result in more dramatic portfolio swings. Accordingly, while we generally recommend evaluating your portfolio with an eye toward rebalancing annually, the market's recent swoon demands more immediate attention. In fact, looking for rebalancing opportunities during volatile markets can help you capture buy low/sell high opportunities as asset class performances drift apart over the short term. As you look at your portfolio, it's

also important in this volatile market to assess whether your current risk level is still necessary to achieve your goals. Of course, the beauty in making portfolio changes in a retirement plan is that they are free of tax consequences.

- **Check your diversification.** Spreading your portfolio across multiple asset classes may help reduce volatility and potentially can increase returns over time. Interestingly, EBRI's issue brief found many participants near retirement had exceptionally high exposure to equities. In fact, nearly one in four participants between ages 56-65 had more than 90% of their account balances in equities at year-end 2007, and more than two in five had more than 70% in equities. To guide employees to more appropriate risk levels, many plan sponsors are offering asset allocation and/or target date portfolios, which automatically rebalance asset investments. According to EBRI, had all participants been in the average target-date fund at the end of 2007, 40% of the participants would have had at least a 20% decrease in their equity concentrations, and, consequently, might have mitigated their losses.
- **Keep investing.** By investing in Individual and Company Sponsored retirement accounts, you practice a successful investment strategy called dollar-cost averaging. Contributions buy fewer shares when the market is up and more shares when the markets are down, resulting in a lower average cost per share over time. Right now, the market is down, creating the opportunity to buy when prices are low possibly from upside potential. While it's natural to worry about just when the recovery will occur, history provides some comforting statistics. In *Advice to Investors: Sit Tight and Batten Down the Hatches*, Wharton Finance Professor Richard Marston notes gains from the market bottom of the recessions of 1982, 1991, and 2001 were 59%, 34%, and 39%, respectively.

In fact, according to Investment Company Institute President Paul Schott, in spite of the market's steep declines, only 3% had stopped contributing to their accounts and only 3.7% had taken withdrawals.

- **Adjust your timeline.** Your retirement account may have taken a serious hit, but remember that you are planning and saving for a lifetime, not just a retirement date. That is, although you may retire at age 65, that's not the end date for portfolio growth. In fact, in recommending strategies to create a reliable retirement income stream, we often plan out to age 100. With that longer investment horizon, today's downturn can seem easier to overcome. Certainly, it's difficult not to focus on the market's 2008 nosedive, but investing for retirement security is a long-term endeavor.

Of course, I appreciate that some of this advice falls into the "easier said than done" category. Please know that we are available to answer questions and guide you through this challenging investment environment.