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**Your 401(k) Handbook: 2004 Employees' Guide to Investments and Decisions
By Mark L. Schwanbeck**

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The Ten Rules

RULE 1—SAVE

If you plan to retire, you must save. It's as simple as that. Your company and the government are not going to do it for you. They have given you tools—the 401(k) plans, IRAs and Social Security. It is your responsibility to save money with each paycheck. It is easy to spend and load up on debt. If you don't discipline yourself while working, retirement is going to be difficult.

RULE 2—LEARN INVESTMENT BASICS

Many people think investing is difficult. It's not. Compare it to driving a car. Most people don't think twice about jumping into their car to drive to work, to the store, or home. To drive a car, you don't have to know how to build the car, take apart the engine, or understand the mysteries of internal combustion. You just have to know how to drive. It's the same way with investing. You don't have to be an economist or a Wall Street wizard. You have to know a few basic principles and apply them. Take the time to learn these principles and you will be able to prepare for your retirement.

RULE 3—DIVERSIFY

The most important principle of investing is diversification. Don't invest all your savings in one stock, one market, or one asset class. When your portfolio is well diversified, you will never experience the highest returns in any one year, but you also will never experience the worst. Your savings will grow after many years and provide you with peace of mind.

RULE 4—IGNORE FADS

Today, as never before in history, there are hundreds of sources of investment information. Newspapers, magazines, television, radio, and the Internet all cover the financial markets hour by hour, 24/7. To the media, delivering information is a game like football, baseball, or politics. To be fresh, the coverage tends to concentrate on what is hot right now. Today's winner is the hero. Today's loser is the goat. The reality is that once you make your fundamental decisions, there's not much to do. It takes time for your decisions to bear fruit. Meanwhile, it's impossible to know if the latest guru being touted by the media is a genius or someone who is damn lucky. Ignore the fads and the media's hero worship. Stick to the basics. Set your asset allocation, diversify, and save.

RULE 5—AVOID LOANS

IRS regulations allow you to borrow from your 401(k) plan account, but that doesn't mean you should. Although, it might sound attractive to borrow from yourself and pay yourself a low interest rate, it isn't. It's a sucker's game. Borrowing from your 401(k) will decrease your opportunities to grow your savings and will trim the money available for retirement. Borrow outside the plan if you must; use your 401(k) only as the last resort.

RULE 6—MINIMIZE COMPANY STOCK

Company stock can be a great investment, but like anything else, don't overdo it. If your company matches your contribution with stock instead of cash, don't purchase more stock voluntarily. If possible, try to limit a single stock—company stock—to no more than five percent of your retirement savings. If more than five percent is in company stock, sell and diversify when you are allowed to do so.

RULE 7—ROLL OVER

When you leave a company before retirement, either leave your savings in the 401(k) plan or roll your money into an IRA account. Never withdraw it and pay the penalty taxes. Savings left in a tax-deferred account like a 401(k) or IRA can compound and grow if properly diversified. Spending the savings in these accounts before retirement is foolish, and the only winners are the IRS and state income tax authorities.

RULE 8—THINK ABOUT THE WHOLE PORTFOLIO

As you accumulate retirement assets, make sure you look at all of them. It's common after a few job switches for investors to accumulate many retirement accounts. You should develop a diversification strategy that includes your family's 401(k) and IRA accounts. Take advantage of the best features of each plan to maximize the potential of your savings.

RULE 9—RESEARCH RETIREMENT OPTIONS EARLY

Don't wait to think about retirement when you are 65 years old. Develop no later than your 40s an understanding of what it takes to retire and begin to make serious calculations and financial plans while you are in your 50s. Learn all the regulations and know what Social Security and traditional pension plans (if you are covered by one) will provide.

RULE 10—GET HELP

There are plenty of information resources about comfortable retirement. Free help is available from your financial services provider, the library, and the Internet. If doing the research is too much work, hire a tutor—a financial planner—to help you. However, don't accept the financial planner's advice until you have a complete understanding of what he or she has proposed.

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