



For Immediate Release

FED Set to Increase Interest Rates What Should 401(k) Investors Do?

Millions of 401(k) investors should sit tight and review their asset allocation

Arlington, Va: Current headlines indicate that the U.S. Federal Reserve is set to raise interest rates after years of low rates that were established to stimulate the economy and bring the country out of its recession. With the economy showing signs of faster growth and increases in inflation, the business media reports that now is the time for investors to act. But, what should the 401(k) investor do?

“Nothing radical,” said Mark Schwanbeck, author of *Your 401(k) Handbook: 2004 Employees’ Guide to Investments and Decisions*. “Participants in 401(k) plans should take the long view,” he said. “Now is a good time to review your overall asset allocation and your financial objectives. The markets over the last four years have been volatile—from bust to boom. Check your asset allocation and rebalance, if necessary.” Rebalancing the portfolio sets the ratio of stock funds and bond funds to the long-term average necessary to achieve a secure financial future in the retirement years.

In 1984, Mark Schwanbeck helped the Times Mirror Company establish its first 401 (k) plan and directed its investment strategy as the employees savings grew to \$1 billion. He also headed J.P. Morgan Investment Company's Marketing Strategy and Communications department and worked as an investment officer at Strategic Investment Partners Inc. Today he owns his own consulting practice and is the author of *Your 401(k) Handbook: 2004 Employee's Guide to Investments and Decisions*, which includes new information about headline-making issues such as:

- Market timing
- Late trading in mutual funds
- Protecting 401(k) investments
- 2003 market data
- IRS regulations and contribution limits.

Schwanbeck’s checklist for 401(k) investors wondering what to do now includes:

- Set the overall stock/bond asset allocation. A good rule-of-thumb is to subtract your age from 100 to arrive at an initial allocation to stocks. Someone who is 30 years old would allocate 70 percent of their money to stocks, while someone who is 50 years old would allocate 50 percent to their 401(k) plan’s stock fund. Of course, individual circumstances may warrant a different allocation, but this is a good place to start.

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- Make sure that your money is diversified among core and specialty funds. Core funds are those that invest in a broad segment of the market. Funds with names like *S&P500 Index Fund*, *Equity-Income Fund*, and *Total Bond Fund* are typical examples of core funds. Specialty funds are those that invest in a specific sector or slice of the market. Examples of specialty funds include *Small Cap Growth Stocks*, *Mid-Cap Value Stocks*, and *High Yield Bonds*. Schwanbeck recommends that investors limit their investment in each specialty fund to no more than five percent of assets.
- Limit the amount of company stock in the portfolio. “Do everything possible to limit company stock to five percent of your portfolio,” Schwanbeck urges investors. “If your company makes its contribution in stock, never purchase additional stock with your contributions. If allowed, sell your company stock to limit the amount to five percent of the portfolio.”

Schwanbeck discusses savings strategies like these in his book, *Your 401(k) Handbook*, which targets employees participating in their companies’ 401(k) plans and focuses on the investments, asset allocations, and retirement decisions that 401(k) investors face. The book helps readers:

- Decide how much to save
- Understand what they need to know about stocks, bonds, and mutual funds
- Allocate their savings based on age and other factors
- Avoid financial mistakes that could leave them with too few dollars to retire
- Increase their savings by rolling over money to another 401(k) or IRA when they change jobs
- Determine when they should take a loan from their plan
- Minimize the taxes they will pay by using a 401(k) plan’s tax shelter features
- Take advantage of special funds that are only offered in 401(k) plans
- Evaluate the performance of their plan’s investment options
- Maximize the retirement benefits from their 401(k), IRA and pension plans
- Navigate the plan’s rules and IRS 401(k) regulations
- Understand the brochures and materials their company provides

Your 401(k) Handbook offers common sense rules that help workers create a well-rounded portfolio of stocks and bonds. The rules encourage novice investors to save, learn investment basics, diversify their portfolio, ignore fads, avoid loans, minimize company stock, rollover their account when leaving the company or retiring, consider their whole portfolio, plan early for retirement, and get help. (See sidebar for *Your 401(k) Handbook’s* Ten Rules.)

“The rules discussed in the book are not new,” Schwanbeck said. “But, many were forgotten during the bull market in the 1990s. I want employees to focus on strategies that will enable them to save for retirement, not to beat next year’s market averages.”

ABOUT THE AUTHOR

Mark Schwanbeck is a consultant and author of personal finance books and articles. This is his third book about 401(k) investors. His first book, *Your 401(k) Plan: How and Where to Invest*, published in 1996 by Irwin Professional Publishing (an imprint of McGraw-Hill School Education Group), was one of the first books written for employees facing the challenges of investing in a 401(k) plan and saving for retirement. Schwanbeck works closely with investment management firms, 401(k) plan administrators, financial planners and tax advisors to create corporate pension plans. In his corporate career, he worked for a Fortune 200 media company (The Times Mirror Company, which was subsequently purchased by the Tribune Company) where he managed a \$2 billion defined benefit pension plan. In 1984, he helped the company establish its first 401(k) plan and directed its investment strategy as the employee savings grew to \$1 billion. Before establishing his consulting practice, he headed J.P. Morgan Investment Management Company's Marketing Strategy and Communications department and worked as an Investment Officer at Strategic Investment Partners, Inc. (Arlington, VA).

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by Mark L. Schwanbeck

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