

401(k) ADVISER
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Now's a good time to review retirement goals



The road to financial security in retirement is paved with good intentions. Recently, that road has taken some sharp turns in the form of excessive stock market volatility, and for some, cuts in corporate matching

contributions.

Despite these recent hairpin turns, the two fundamental questions that every 401(k) participant needs to be able to answer remain the same. "Am I saving enough to be able to afford to pull off the road someday?" And "Am I invested properly to maximize the return on my investment given my tolerance for sharp turns?" The first of these two questions is the most important.

Am I saving enough?

To figure out how much to save for retirement today, begin with an understanding of what your ultimate nest egg needs to be when you retire. See Table 1 to get an idea about the monthly income generated by various lump sums if you were turning 65 years old and retiring today. Once you have an idea of the lump sum you desire, you can work backwards to calculate how much you'll need to save each year, in today's dollars, to get there.

Of course there are other considerations in determining how much you need to have saved at retirement, such as pension benefits, spouse's retirement benefits, Social Security and inheritance. Another important and related question is whether to save with pretax dollars, subject to taxation upon withdrawal, or with after-tax dollars in a Roth 401(k) for tax-free withdrawals.

HOW MUCH YOU'LL NEED

Desired monthly income	Estimated balance needed at age 65	
	If you're female	If you're male
\$500	\$84,555	\$79,145
\$1,000	\$169,110	\$158,291
\$1,500	\$253,665	\$237,436
\$2,000	\$338,220	\$316,581
\$2,500	\$422,775	\$395,727
\$5,000	\$845,549	\$791,453

Source: immediateannuities.com

RATES OF RETURN

	Total Return		
	YTD 2009 (as of Dec. 22)	2008	Difference
U.S. blue chip stocks (S&P 500)	26.72%	-37.00%	63.72%
U.S. small cap stocks (Russell 2000)	26.71%	-33.79%	60.50%
International developed stocks (MSCI AC World except US)	38.69%	-45.34%	84.03%
International emerging stocks (MSCI Emerging Markets)	71.85%	-53.49%	125.34%
Hard assets (DJ UBS Commodity)	15.20%	-35.65%	50.85%
Bonds (BarCap Aggregate)	6.24%	5.24%	1.00%

Source: Bloomberg/Morningstar

Just remember, there is much truth in the old saying "If you don't see it, you don't miss it." This is why payroll deduction saving through your 401(k) plan is by far the most painless way to save for retirement. Once you've started saving for retirement, you still have another important question to answer.

Am I invested properly?

The world's wildly fluctuating stock markets over the past two years have caused many 401(k) investors to swerve into the wall. Table 2 demonstrates the huge difference in returns between 2008 and 2009 for various key asset classes. When 2009 goes into the books, it's likely to finish as the biggest year-over-year change in performance for U.S. blue chip stocks since 1938. International stock markets delivered an even wilder ride over the past two years.

As for the equity allocation of your portfolio, diversification is the key. We are big proponents of international and "hard asset" investing to expand the number and type of economic environments in which your portfolio can participate. Including these alternatives in a portfolio would not have prevented a loss in 2008 but would have improved portfolio efficiency over the last 10 years. Remember, the U.S. now represents meaningfully less than one-half of the world's stock market capitalization. Focusing too much of your portfolio in the U.S. is making a large bet on a shrinking fraction of the world economy.

Lessons learned

One investment axiom proved true by the past couple of years is the portfolio-stabilizing effects of bonds. In 2008, an 80% S&P 500/20% aggregate bond mix would have resulted in a -28.55%, whereas a 50/50 mix was

-15.88%. As a general rule, the more risk averse or the closer you are to needing the money, the more bonds you should have in your portfolio. Because even bonds carry risks, primarily inflation risk - the risk of the cost of living growing faster than the value of your bonds - it rarely is a good idea to put more than 75% of your retirement assets in bonds.

Another benefit of 401(k) investing, nicely illustrated by the past two years, is the turbo-power effect of dollar cost averaging. Because a 401(k) plan forces you to invest at regular intervals, you bought more shares at depressed prices when most non-401(k) investors were either selling or sitting on the sidelines. These cheap shares have helped the average 401(k) account recover much more quickly than the typical portfolio.

Finally, if you were fortunate or smart enough to do any rebalancing earlier this year, you most likely supercharged your performance. Meanwhile, most 401(k) participants who tried to "market time," by jumping out of the stock market with the intention of jumping back in when the road was clear, might as well have poured sand into their gas tank.

By getting serious about saving enough now, and spending some time to fine-tune your retirement investments, your odds of staying on course and experiencing the checkered flag at the finish line increase significantly.

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