

A well-tended 401(k) can make a millionaire

401(k) ADVISER

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Imagine \$1 million sitting in an account with your name on it. Sound like wishful thinking? With enough time on your side and a little planning, you can

make this dream a reality through your 401(k) plan.

The road to a seven-figure 401(k) account starts with deciding how much you can live without today, so you can afford to stop working tomorrow. Here's where automatic payroll deductions come in handy.

There's a lot of truth in the old saying, "If you don't see it, you don't miss it." My advice is to get started right away, even if it means a little sacrifice. You'll be amazed at how your spending will conform to what's left in your paycheck.

How much should you save? Financial planners encourage you to save 10% of your pay for retirement, but that's a lot to live without for most people just starting out. So consider starting at a lower percentage and build up to that level gradually.

It's also important to know the percentage of your contributions that your employer will match. If your employer offers to match the first 6% of your pay that you contribute to the plan, that's the number you should start out at. Anything less, and you're leaving money on the table.

Once you've established your initial savings rate, plan on increasing it gradually over time. An increase of 1% a year is a reasonable goal.

Many employers are adding a feature called automatic deferral increase to their 401(k) plans. This automates the process so that you don't have to remember to do it on your own.

If your company offers you a Roth 401(k) option, give it serious consideration.

Yes, it means an even bigger current sacrifice because of the higher income tax you would pay today. But if you're in a low tax bracket or already have a large amount saved in accounts awaiting future taxation,

putting money away into a Roth account that is potentially tax free forever could yield huge advantages.

Once you've started saving money, the next important step toward becoming a 401(k) millionaire is deciding how to invest.

The first thing you'll need to decide is if making detailed investment decisions is something you want to do. Many 401(k) plans offer one or more professionally managed balanced fund options specially designed for those without the time, interest or experience to handle their own investment decisions.

If you prefer to be in control, then you will need to ascertain your risk tolerance.

You can be the most greedy investor on the block, but if every time your account drops 20% you think you'll panic and sell, then you should invest conservatively in a portfolio of funds that is heavily weighted to bond and stable value funds. Just be prepared to accept a lower rate of return.

If you can live with the ups and downs of the markets, then an equity-based portfolio of funds is the way to go. The key is having the right mix.

Too many participants are still living with investment strategies that worked well in the '80s and '90s but are not as well suited for the next 20 years. You need to look forward, not backward, when designing your investment strategy.

We believe equity-oriented investors should have at least a 20% exposure to foreign markets as well as an investment positioned to do well in an inflationary environment. U.S. equity holdings should either be through low-cost index products or a reasonably balanced exposure to both value- and growth-style equity funds.

If available, company stock is acceptable, but only in moderation. Typically we recommend no more than a 10% exposure to this highly volatile offering.

The key is striking an appropriate balance and sticking with it. Occasional rebalancing is recommended. I suggest rebalancing once every one to three years.

401(k) millionaire

Weekly savings needed to reach \$1 million by age 67

Age	Investor Type	
	Conservative*	Aggressive**
25	\$102	\$30
35	\$200	\$83
45	\$423	\$242
55	\$1,100	\$836

* 6% rate of return, compounded monthly for an effective annual rate of 6.17%

** 10% rate of return, compounded monthly for an effective annual rate of 10.47%

Source: Francis Investment Counsel LLC

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Attempting to "time the market," however, is a sure recipe for disaster. People who study the markets full-time generally cannot guess when it's time to move out of an asset class, so you should refrain from trying. Remember, to time the market successfully you have to be right twice, about when to get out as well as when to get back in.

Your 401(k) is an automated and tax-advantaged tool to build wealth for retirement. It's also portable, so no matter how many times you switch companies throughout your career, your 401(k) strategy and assets can follow.

When you include the possibility of employer matching contributions, your 401(k) may well be your surest path to achieve millionaire status.

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