

# THE WALL STREET JOURNAL

January 29, 2011 – GETTING GOING By Karen Blumenthal

## 401(k) Advice—For a Hefty Fee

One substantive result of getting advice is that people who do tend to save more. In a survey last year, Schwab found that **70% of participants who received 401(k) advice nearly doubled their savings** to an average of 10% of pay.

In the Schwab survey, **53% of investors said they found choosing 401(k) benefits was more confusing than choosing health-care plans**, underscoring how befuddling many people still find retirement plans and strategies.

### January 29, 2011 Comments

In a study based on nearly 400,000 401(k) participants, the average participant who did not seek help fared poorly in comparison to those who did seek help. **On average, the median annual return for participants who did not seek help was almost 2% worse (net of fees) than participants who did seek help.** Note: The study included one bull market year (2006), one mixed market year (2007) and one bear market year (2008).

Many 401(k) participants believe they are investing safely when they solely invest in an S&P 500 index fund. This false sense of safety comes from the believe that ‘blue chip’ stocks in the index, like Exxon Mobil and Microsoft, can’t go out of business. Whether or not any of the 500 companies in the S&P 500 index go out of business, the risk of solely investing in ‘blue chip’ stocks may be much too high based on an investor’s risk tolerance. Does anyone remember the crashing and burning of S&P 500 components like Enron and WorldCom?

Many investors that relied on 10% per year rates of return from the S&P 500 were sorely disappointed over the 10 years ending 12/31/10, when the index delivered an approximate 1% average annual return. Many investors dumped stocks after 2008, when the S&P 500 returned -37%. Only after the S&P 500 returned over 26% in 2009 and over 15% in 2010 have those same investors considered returning to stocks.

Since most investors cannot time the financial markets, developing and managing a portfolio based on a long term risk tolerance and set of defined goals (e.g.: retirement at age 65) is the most prudent approach for most. **The risk adjusted performance gained from a properly allocated and well managed portfolio (relative to an incorrectly allocated and/or poorly managed portfolio) can significantly outweigh the management fees.**

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<http://www.skloff.com/services-401k-403b-457.htm>

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