Longview "INSIGHTS" Newsletter

"helping clients grow, protect and distribute their wealth"

June 2014

This is a report published by Keith Tufte, President of Longview Wealth Management, LLC with insights on investing and wealth management.

INVESTING QUOTE OF THE MONTH: "Over the last 20 years the U.S. stock market index has returned an average of 9.22%, but the typical equity investor has netted just 5.0%. Investor education, as we know it today, is just not working." – Dalbar & Associates

SIX COMMON MISTAKES IN 401(K) PLANS

We help many business owners improve and manage their 401(k) retirement plans. In doing so, we get a chance to educate and advise many plan participants on their investments. We see six common mistakes that people tend to make repeatedly.

1. *Not saving enough.* This is the biggest mistake with the largest consequences for people. Most people are not saving nearly enough. The average person saves only about six to seven percent of their salary in their 401(k) retirement plan (excluding any match). Studies by Fidelity and Vanguard, amongst others, show that employees actually need to save closer to 12%-15% (including any company match and profit sharing) over the course of their careers to be able to retire successfully. Company pension plans are a thing of the past, and social security is looking increasingly underfunded and at risk. Many companies offer a 100% 401(k) match up to the first 3% of salary, and some offer a match above that level. By participating in your 401(k), at least up to the match amount, you are getting an instant, guaranteed, 100% return on your investment. We haven't come across a better investment than that in 30 years of looking. We recommend people save as much as they can, even if it is not at the 12%+ level initially, then increase their contribution rate by 1% per year until they get to that level. We recommend saving at least enough in your 401(k) plan to get the full company match.

2. *Not being diversified.* Many people own two or three different large U.S. company growth stock funds and believe they are diversified. That is not a very diversified portfolio. Your portfolio generally should include U.S. stocks (large and small), international stocks, and bonds.

3. *Not having the proper amount of risk.* Many retirement plan participants have no idea how much risk is in their portfolio, or how much risk they should be taking. For example, a young person with nearly all of their investments in cash and bonds may not be taking the appropriate risk level. An older person close to retirement probably should not have 100% invested in stocks.

4. *Not rebalancing the portfolio.* A good strategy to improve returns and to keep the risk of your portfolio from getting away from the target is to periodically rebalance your portfolio back to pre-set asset allocation targets. If stocks perform dramatically better than bonds (such as in 2013), it may make sense to rebalance your portfolio by trimming back on stocks and adding to bonds to get back to your target allocation of 75% stocks, for example. Some 401(k) plans allow you to set up automatic rebalancing.

5. *Chasing performance.* Many retirement plan participants look at the year-end performance of all the funds in their plan, and then shift their investments into the funds that performed best over the past 1-3 years. They believe that since those funds have performed the best in the past, they are likely to continue to be the best performing funds going forward. This is not a good investment strategy, and often results in buying high and selling low.

6. *Not making your portfolio more conservative as you age.* Most people "set it and forget it" when it comes to their investment allocations in their retirement plan. They often don't change anything for 5-10+ years. For many people, it can make sense to make your portfolio gradually more conservative as you get closer to retirement age, because your portfolio has less time to recover if there is a big downturn in the financial markets.

What can be done to help people make fewer mistakes and end up with better long-term performance in their retirement plans? We can educate them about these common mistakes, and offer a simpler way to invest using target date funds or model portfolios.

Continued on back >>

TARGET DATE RETIREMENT PORTFOLIOS – A SOLUTION?

Target Date funds are portfolios offered in most 401(k) retirement plans. They greatly simplify the investing process for employees. We think they are an excellent investment choice for many employees. A Target Date fund is a single fund that invests in many other funds, at least one in each of the major asset classes. They are named by the year in which you are expected to reach the age of 65. For example, if you are currently age 49 you would be expected to turn age 65 in the year 2030. You might consider investing in the Target Date 2030 fund. You don't have to choose the Target Date fund that corresponds with you turning age 65. You could pick one above or below your actual retirement date. Not all people of the same age will have the same risk tolerance. Some of the factors besides age that we consider for a target risk level are wealth, income, debt, natural risk tolerance, timing of cash needs, investment experience, financial goals, riskiness of other assets, and the risk/volatility of their career/income.

Target Date funds reduce or eliminate 401(k) investor mistakes two through six listed on the previous page. They set your investment allocations on autopilot. You don't have to watch or worry about them as closely as individual funds. Target Date funds make many of the smart moves automatically for you. By using these funds you will have a diversified portfolio with a reasonable amount of risk for someone your age. These funds rebalance automatically, don't allow you to chase performance, and gradually get more conservative as you age. The only major problem they can't help fix is you not saving enough.

Target Date funds typically have about 80%-90% in stocks for younger investors, and the equity allocation gradually declines to about 50%-60% for people at the typical retirement age (65). Studies of actual 401(k) investors show that these Target Date funds tend to outperform the vast majority of employees who pick their own funds in the plan, and by a significant margin. In some of our 401(k) plans we have created customized model portfolios that offer many of the same advantages of the Target Retirement Date funds. If you have a professional advisor (like us) that can set up a customized asset allocation in your 401(k) plan, you may be able to do better than the Target Date funds. We can often include lower cost funds, more asset classes, and a value tilt to our customized portfolios.

TRADITIONAL 401(K) OR ROTH 401(K)?

Most 401(k) retirement plans now offer a Roth option, along with the traditional 401(k). The vast majority of people are still investing in the traditional 401(k) plan. In the traditional 401(k) option, you get the tax deduction now (when the money is contributed), but the money is taxed at your ordinary tax rate when it is pulled out in retirement. The Roth option offers no tax deduction in the year you contribute the money, but you are not taxed on the money when it is pulled out in retirement. It is helpful to compare your income tax rate now to your estimated tax rate in retirement to decide whether the traditional or Roth 401(k) is best for you. If your tax rate is currently below your estimated tax rate in retirement (such as for many young people), you may want to consider the Roth 401(k). If your tax rate in retirement is expected to decline compared to your current tax rate, you may want to stick with the traditional 401(k). To diversify your future tax exposure, you could put some of your retirement plan in the traditional and some in the Roth 401(k). You can do both.

We believe that we have a strong competitive advantage in improving and managing 401(k) retirement plans for business owners. Our strengths are choosing low-cost diversified funds, educating participants about investing and saving, offering fiduciary protection for the business owner, and helping people reach their financial goals.

Longview Wealth Management, LLC provides unique wealth management services for a select group of client families to give them peace of mind. Longview is run by Keith Tufte, who has over 25 years of successful investment management experience as a Wall Street Analyst, Mutual Fund Portfolio Manager, Director of Equity Research for a major mutual fund firm, Hedge Fund Portfolio Manager, and Wealth Management Advisor. Please FORWARD this e-mail to any friends/relatives/business associates that you think may have an interest. Please visit our website at www.longviewwealth.com.

LONGVIEW WEALTH MANAGEMENT, LLC

Keith N Tufte, President, CFA, MBA • keith@longviewwealth.com • Office (952) 906-1289 • Cell (952) 465-1785

Legal Disclaimer: These materials do not constitute an offer or recommendation to buy or sell any securities or instruments or to participate in any particular investment or trading strategy. They are for informational purposes only. Longview gathers its data from sources it considers reliable. However, Longview makes no express or implied warranties regarding the accuracy of this information or any opinions expressed by the author and may update or change them without prior notification.