

The current economy is rife with uncertainty. The danger is that uncertainty creates optimal conditions for financial myths to be created and for existing myths to be reinforced. When people make decisions from fear and scarcity, rather than confidence and abundance, destructive myths gain an even greater stronghold.

Myths become “sacred cows”—unquestioned beliefs that become woven in to the fabric of society, so much so that they become extremely difficult to see through and change. They gain momentum through popularity and social agreement. They are not true or correct principles, but rather they are simply comfortable ways of doing things.

The ultimate sacred cow of retirement planning is the 401(k). To illustrate how the myths limit the potential of individuals and leave their success to chance, I will analyze the following article, which is based in conventional financial planning, and kill the sacred cows throughout. My intent is to help you, the reader, discern truth from falsehood and recognize myths. Throughout the article I will give you useful questions to ask not only for this situation but future financial decisions. Look for my comments in italics.

Retirement Funds: Invest More Now

By Jonathan Burton  
The Salt Lake Tribune

Falling stocks are roadblocks to a comfortable retirement. *The first assumption is that people have to use stocks as part of their plan. Stock market “investing” has become so deeply associated with retirement planning that for most, it’s almost unthinkable to consider alternatives. I say “investing” tongue-in-cheek because very few people actually invest in the stock market; most people are simply gambling with very little control and knowledge of what they’re doing and how they’re creating value. Furthermore, there are plenty of private investments that may be more in alignment with your knowledge, passion, and abilities than stocks.* At times like this, when the path looks especially rocky, it’s tempting to reduce your regular contributions to a 401(k) account or other automatic investment plan. *Interesting that when the plan is failing the article points out that people would be tempted to stop contributing to something that is losing. If you are traveling down the wrong road, is staying the course going to get you where you want to go? If there were a path less rocky why wouldn’t you want to take another route? It is as if the media wants you to think that your options are limited and you just have to accept that the ride will be rough and you may or may not get where you want to go.*

In fact, with the U.S. and international stocks both down sharply this year, it’s actually a prime time to boost your commitment to these all-terrain retirement vehicles. *Isn’t this an interesting take on investing? Since everything hasn’t been working and you have been taking losses, you should buy more because it is on sale. It would have been nice to know the sale was coming so people could avoid putting money in when things were overpriced. Why, if stocks are down sharply, is it a good time to buy? Are they for sure going to go up? Is this the end of the downturn or could there be more? Does anyone know for sure? If not then it sounds an awful lot like gambling. It is like*

*saying at the roulette table “It has hit black three times in a row, red is down, now is the time to bet on red.” Take a bit extra from each paycheck, buy more shares at lower prices, and let the markets long-term upward trend do the rest. What is meant here by long-term? How long is the long-term? When will the upward trend do the rest? What is the impact of the downturn on your overall return and ultimately how you feel? This makes it sound so simple. That you just throw your money at the market and it will work out (even though the article starts talking about sharp downturns). What about those that were counting on retiring next year or had already retired? How long before they get where they want to be? There is no science thus far, merely myths and marketing. The message is loud and clear- you don’t know what you are doing so just stick it out and let those in charge handle it for you. You’re not directly creating value in the marketplace, but the marketplace will handle value creation for you if you just give it money.*

“It’s a practice that almost all the great investors have used”, says Christine Benz, director of personal finance at investment researcher Morningstar. “They’ve taken advantage of short-term market panics. It’s a sensible strategy for smaller investors to emulate.” *Do we know that it is a short-term market panic? How do we know? What are the indicators? Why did the Bank of Scotland tell their clients to be wary of the market and that the worst is yet to come? Who is right? Do you know? If not, then moving forward is a gamble.*

Of course, anyone just a few years from retirement shouldn’t pile on stock-market risk – there isn’t enough time to recover from losses. But this recent turmoil has also rattled the bond market, where the same “buy low” strategy applies. *How does one recover from losses? This is a damaging and utterly false myth. There are two parts to it: first- that high risk will be rewarding, and second, that you can actually recover from a loss. The definition of risk is to increase your chance of loss. So how can increasing your chance of losing equate to a higher return? Well...it is a gamble. Do you want to gamble with the money you have earned through hard work? Do you have future dreams that your money must fund? If so, is it worth risking it all? Second, a recovery is a misnomer. If you have \$10,000 and lose ten percent, it will leave you with \$9,000. But if you earn ten percent the next year, you only make \$900, therefore leaving you \$100 short of your original principal. Furthermore, you have also lost two years of potential progress and gains, which is lost opportunity cost, a cost that very few traditional advisors and pundits take into consideration.*

“If you can afford to contribute more, I would tell you to increase it in any market,” says Sri Reddy, head of retirement strategies at ING. “Participate as much as the plan will allow.” *Increase the contribution in any market- WOW, this really exposes the myth. Do you think that ING has an interest in you making deposits no matter what? Is this in your best interest? Once again, it is automatic and requires no thinking. Who is really making the money here? ING makes money on fees whether you have an increase or a decrease. Now, they would prefer an increase, but in their own words “I would tell you to increase it in any market.” Where is the strategy? Where is financial freedom and security? How is this in alignment with your plan?*

**Stick To the Plan**

Increasing payroll contributions to a retirement plan, regardless of market condition, will likely earn you more over time. ***This is stated as if it is fact, but do some research. There is one key word here-“ likely.” How likely? What are the factors involved that determine this? Is there any way that you can directly contribute to increasing the likelihood of earning more, or are you completely dependent on indeterminate market forces?***

Consider two hypothetical 401(k) investors who stashed \$1000 in a Standard & Poor’s 500 Index mutual fund at the end of 1997. Initially, they each added \$100 a month - \$50 from salary and a \$50 employer match – to this all-stock portfolio. A decade later, that approach brought the account’s value to about \$17,500, according to investment researcher Lipper. ***So there was \$13,000 put into the plan and just ten years later there is now \$17,500. Best case scenario one can look at this as a 14.51 percent return on money. If on the other hand the match was considered money that is yours, it is only a 5.02 percent interest rate. As a side suggestion, if you do not feel that the 401 (k) is the best vehicle for your retirement or as an investing vehicle, then you may want to consider a new approach. If you are in a firm where you can communicate with the decision makers, it might be an opportunity to ask them to just pay you the money they would have otherwise matched in your 401(k) so you can utilize it more appropriately.***

***Back to the issue of the 17,500 dollars. If inflation were 4 percent (think of the increased cost of gas, utilities, food and housing over the past 10 years and that would be a very low estimation) and now the \$17,500 is only 67.56 percent of what it was just ten years before—in other words, the spending value is equivalent to \$11,822, not \$17,500. And, if a person has not yet reached age 59 and a half, if they actually use the money they will likely pay a ten percent penalty in addition to taxes (which could be higher if salaries or income have gone up for the individual in the last ten years). Now it would seem the person in this scenario is merely treading water. And were administrative fees, 12b-1 fees, and expense ratios taken into consideration on this amount of money?***

During this period, the U.S. market went through an uplifting bull market and a punishing bear. Indeed, it was still a dark time for stocks at the end of 2002, when one of these workers – by now earning a bigger paycheck – upped her monthly contributions to \$75 with an equivalent employer match. ***Well...if it was glaringly unsuccessful above, then more money will fix the problem right? So \$3,000 more, the impact of the penalty, still don’t have full access to the money, assuming all expenses are accounted for, etc***

That decision proved lucrative: At the end of 2007, this worker amassed a retirement portfolio worth \$21,000.

Even better, the automatic nature of these plans takes the emotion out of investing – as long as you don’t tinker with it. Through what’s known as dollar-cost averaging, you’re buying more shares in down markets and fewer in up markets. ***Do you want to only be average? Is this the goal? I agree that taking emotion out of investing can be very effective at times, but taking education out of investing is a dangerous path, sure to lead to a rocky road.*** The important thing is that you’re in the game; once you slip out of retirement-savings mode, it’s hard to get back in. ***If you are losing the game, is it the most important thing to be in the game? If you don’t know what you are doing how successful will that game be? Know that you can be educated (as evidenced by you***

*reading this article). Investing doesn't have to be complex—it's just lucrative for the institutions to convince you otherwise.*

“The worst thing that can happen,” says David Kula, chief investment strategist at money manager Mainstay Capital Management, “is that someone who has a long-term strategy designed to meet their goals and time horizon lets short-term market volatility cause them to waver.” *Ummm...how do they know the worst that can happen? What if the government changes the rules of the plan? What if taxes go up? What if you need access to the money but it is locked up in this plan and you damage your credit or face foreclosure due to the illiquidity of this plan? What if you have no exit strategy and therefore don't enjoy any of this money you save over your lifetime? What if you do not have a proper estate plan and lose up to eighty percent of the money to income and estate taxes when this is passed on to your heirs? What if you have too much of your employers stock and it ends up like Enron? I am not saying those things are going to happen, or that you should feel hopeless, or have all of your focus go towards worst-case scenarios—I'm simply saying that those that want your money paint a limited picture of what is happening and how it impacts your life.*

## **Stay Balanced**

Yet with rising prices at the supermarket and the gas pump, an uncertain outlook for jobs and the pressure of mortgage payments and homes that have lost value, many Americans are stretched thin. A 401(k) may be a lifetime plan, but to many people at this moment it's a piggy bank to cover the bills.

Focus on the big picture. Trimming retirement contributions puts more money in your pocket, but you'll have less once you stop working, and you may even have to work longer to make up the difference. Look for ways to cut spending or consult with a credit counselor before you slash savings. *If you are putting money into a 401(k), but carrying twenty-two percent or higher credit cards it seems that the big picture would be to take the guaranteed profit. You know that twenty-two percent will be charged on your credit card, but do you know what your investment inside your 401k will earn? What if cutting spending means that you are not investing in your productivity? What if it means not investing in your education and memories with your family? What if that puts undue stress on you and limits your happiness? Is that worth cutting back on always? It is important and essential to live within your means, but locking your money up for years and gambling in the stock market while carrying expensive credit cards, or having late fees on mortgages may not be “big picture” thinking.*

“Turning to 401(k) money is not a reliable long-term solution to your debt problem,” says Gerri Detweiler, a credit expert with Credit.com. It's better to leave it alone and look at your other options”.

“By decreasing contributions now, you're giving up a long-term retirement nest egg,” adds Dean Kohmann, a vice president of 401(k) plan services at Charles Schwab. “Whether the market goes up in one year or three years, you're still better off staying invested.” *Same advice no matter what—stay in, put more in. It doesn't matter if the market goes up, down, or is flat, the advice is always the same. What is your plan? What do you really want? Does your current financial picture and strategy align properly to deliver the results you want?*

*Don't be subject to what financial institutions with vested interests want—determine what you want and create your investment strategies based on meeting your interests. Get educated about what you are doing with your money and you can overcome the financial myths that are destroying the prosperity of so many.*