Is There Life After 401(k)?

By Kevin Bourke (Contact)

Dear Kevin,

I'm a 65-year-old man who's retiring in 3 months. I've been working hard my whole adult life and I want to maximize my savings. My cousin, who's done very well for himself financially, said I should take my 401(k) and roll the balance to a mutual fund company which offers an S&P 500 index fund. Then I could take monthly income from that. I've also read about this strategy in a financial magazine. What do you think?

- Glen in Santa Barbara

Dear Glen,

I had a relative who tried the same thing. She was a teacher until she retired in 1999 and she, too, had **a lump sum to roll from her retirement plan to an IRA**. Guided by her tax advisor and bolstered by information she read in financial publications she felt:

1) If the investment is diversified, her risk level will be low.

2) The fees would be extremely low, and 'fees usually eat up returns over time.'

3) On average, the S&P 500 has returned double-digit returns over long periods of time.

4) It seemed so simple to do.

So, she went ahead and invested $489,000 in an index mutual fund that mimics the S&P 500 with a major mutual fund company. I did the math. **Unfortunately, $489,000 invested in the S&P 500 index on December 31, 1999** would have been worth less than $305,000 on December 31, 2002, just three years later. To add insult to injury, she was also taking $1,000 per month from the account to supplement her income, so her balance was actually less than $277,000.

I'm sure you'd agree that **this turned out to be a horrific financial move**. My relative said her dreams had vanished, along with her money, to travel the world, lavish her grandchildren with gifts, and remodel her house the way she always dreamed it could be. She is now watching her dollars because she does not want to go back to work.

The lesson here, Glen, is that to invest all of your nest egg in an S&P 500 index fund (or any single index fund) is to ignore **the basics of asset allocation**. The way your money is allocated is the single most important element of successful investing (statistically even more important than fees).

The way institutions (e.g. pensions and endowments) invest their funds should teach us something. Institutions have a fiduciary responsibility to manage the money entrusted to them according to very strict guidelines. So they must follow a document called the "Investment Policy Statement." The IPS governs how they invest with no emotions, and no guesswork. They must follow the rules. As a result, **institutions earn much greater returns than individuals**, on average.

The largest pension fund in the United States is called CALPERS, the California Public Employees' Retirement System. Go to their site, (www.calpers.ca.gov) and click on "CALPERS Investments." **You'll find**

that their IPS definitely does not invest everything in, say, an S&P 500 index fund.

What you will find is a very disciplined guide to investing that will give you a sense of **what a professional would do** with your investments. CALPERS divides up their investments in a very strict fashion, among many asset classes, and in clearly defined percentages.

For a quick, overly simplified view of how they allocate assets, click the link that says ‘CALPERS assets,’ then click on ‘asset allocation.’ Note that their allocation is likely not the same allocation you would use, as your circumstances are different from theirs. But it is an interesting study.

Whose money is more important to you? CALPERS, or your own? **Certainly your portfolio deserves at least as much attention** as theirs.

To make informed investment choices you need to do the research, take classes at a university, and immerse yourself in finance. Learn about the capital markets, asset allocation, and **the meaning of terms like standard deviation, alpha, beta** and more. You might even find that you enjoy it.

After my relative’s bad experience, she hired a Certified Financial Planner/• to manage her money for an annual fee. The CFP was able to show her how a properly structured investment portfolio would have fared during the difficult markets of 2000-2002. She feels confident that she’ll be left with **more money in her pocket** because she hired the advisor. The CFP designation is quite reputable, but not the only choice when you are looking for a financial advisor. (I’ll tell you more about that in a future column.)

Whether you decide to **hire help or do it yourself** you are in the driver’s seat, and, ultimately, you are responsible for what you do with your money.

Kevin Bourke is a registered principal with and offers securities through LPL Financial Member FINRA/SIPC.