MARKET MONITOR

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Rollover of 401(k) Plan is the Only Reasonable Option after Employment Change

BY: MICHAEL ALEXENKO, CFA

Shamefully, the investment industry has done a disservice to participants in 401(k) plans by not clearly disclosing to them their share of the costs of the plans they are using. It's a regrettably common practice by the brokerage industry, not only as it pertains to retirement plans, but in direct retail services too.

Although the Dodd-Frank legislation claimed to address the problem, little evidence exists that it did much to correct the obfuscation. It wouldn't be difficult to disclose a cost as a percentage of assets invested on each account statement a participant receives. I believe most people would find it helpful to know whether or not it costs them 2% per year to invest money in their company's 401(k).

This solution would offer real reform, but unfortunately not one that the regulators are willing to consider, let alone implement. If people knew how much it cost them to participate in their 40(k)s they would likely move quickly to gain control of their own money after a job change.

Investments seem to be the rare exception where people are satisfied buying something when they don't know what the cost is, and they seem happier to buy when it's more expensive. Everyone needs to understand that when a broker sells you an annuity or mutual fund there are three costs involved: the broker's generous slice which is his commission and his transaction service charge, the mutual fund company or insurance operation that wants to get paid for making their product available, and then there is the market price for the investment itself. Track all of these costs whenever you purchase an investment and you're more likely to discover your total out-of-pocket expenses.

When an employee changes jobs the only truly reasonable solution for handling his 401(k) balances is to roll the amount into a traditional IRA. Rather than leaving the funds unattended in an account that may have poor or limited investment selections with costs that sap his returns, it would be best to execute a fairly simple transfer process.

Some people might fear the challenge of identifying good investments in a market chock-full of bad ones. Thankfully this is an anxiety that has been eliminated with the introduction of numerous mutual funds and exchange traded funds (ETFs) which make the investment selection quite easy, and the cost savings have the potential to materially impact a person's accumulated retirement savings balance.

Investments such as Fidelity Freedom 2020(FFFDX), Vanguard LifeStrategy Growth (VASGX), or iShares Moderate Allocation (AOM) are designed to pursue diversified investment strategies that remove the need for an individual to sweat the details of building a well balanced portfolio by making various investment selections. You are able to accomplish that task by buying just one of these investments that best matches your return objective and risk tolerance. These three funds have annual expense ratios as high as .69% and as low as .17%, but are all likely much less costly than the expenses paid for staying in your previous employer's retirement plan. If you're an active participant in a 401(k) plan be sure to look for target date funds or lifestyle funds among your options. If your employer doesn't offer target date funds or some type of asset allocation funds then ask them if they can include them as part of the selection roster.

How To Rollover Your IRA

Step 1: Open a new IRA with a discount brokerage

Step 2: Execute ex-employer's rollover forms; usually with HR Department

Step 3: Identify low cost quality investment like: VASGX

Step 4: Receive cash from your 401 (k)

Step 5: Enter your purchase online

See "Roll Over," page 2

You Can Successfully Roll Over Your Old 401(k)

Continued from Page 1

Remaining in your former employer's retirement plan accomplishes little more than helping to subsidize the plan cost for your former employer and co-workers. You might like some of your co-workers, but those feelings probably are not worth $40,000. That's how much you stand to lose if you fail to save 1% on your investment costs for the next 20 years assuming a current balance of $50,000 and the difference between earning a net return of 8% vs. 7%. The numbers only get worse the greater the value of your account.

The first step in the rollover process is to establish an IRA at a discount brokerage operation like Schwab, Vanguard or TD Ameritrade. Then the employee must complete and submit the appropriate rollover forms she receives from her prior employer. When she directs her ex-employer's HR Department to rollover her balance directly to her new IRA, the employer will liquidate all of her investments and send cash electronically to her account. Once that money is received she is free to enter her buy order for the mutual fund or exchange traded fund of her choice.

If she needs help with opening the account or understanding how to enter a trade, she'll find that all of the companies mentioned have skilled client service reps stationed at their call centers that are willing to help. If she'd prefer to have personalized assistance there are numerous independent fee-only advisors who can guide her through the process for a fraction of the cost that she'd find at bank or brokerage operations claiming to be impartial trusted counselors.

For those people needing personalized help or possessing more complex situations with larger account sizes that might benefit from customized investment strategies, Royal Asset Managers, LLC is eager to assist.

Market Snapshot: Confusion, Uncertainty and a Lack of Trust

BY: MICHAEL ALEXENKO, CFA

From the title you might think that the following comments have something to do with our government. In a way they do, but they are focused toward the general feelings about the direction of the stock and bond markets. Uncertainty regarding investments exists mostly because even though our economy is still weak, companies seem to be producing greater profits and bigger stock prices.

At this point, that dynamic has caused us to have an economy that is much smaller than historical average relative to the value of the overall stock market. It would be best from a future performance perspective to have an economy worth $21 trillion and a stock market valued at $16.5 trillion, but we have the reverse. It's been voiced many times that this bull market is the most hated bull market in history. This stems from the lack of trust fostered by the concern that artificial maneuvers by the Federal Reserve can't create real prosperity.

Confusion exists in the bonds markets that have expected rising rates for at least five years and we've had mostly declining rates. Again the Fed's manipulation has distorted the bond market to a degree so extreme that what we should expect to be the normal outcome is being postponed for some time into the future. It's times like these that require a precise investment strategy to help to prevent mismanagement of assets. I'm pleased to say that my clients are well equipped with solid investment strategies.

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