INVESTING WITHIN YOUR 401(K) AND IRA'S

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There are many different types of retirement vehicles you could use to plan for retirement. Sometimes we think of these vehicles like a coffee cup. Each coffee cup has a different set of rules and regulations that the IRS lays out which sets the structure of the vehicle. A coffee cup doesn't have to be used to drink coffee. You can put water, juice, soda, coffee, and much more in the coffee up. IRA's work the same way. The IRA is the coffee cup, and you can literally put almost any investment you want into the IRA account.

Let's first review your 401(k) plans before we get into IRA investing strategies. Most 401(k)'s will offer you three types of options. We have two very important rules you should try to follow in your 401(k). The first is to act your age. This means the amount of fixed or bond type investments should be around which your current age. The remaining number left would be in the equity side of your portfolio. The second rule is to be sure that you have checked the automatic rebalancing feature (quarterly) should your 401(k) provider offer this option. Here are your main three choices in the 401(k):

1

lIFECYCLE OR TARGET FUND INVESTMENTS - These investments are structured to give you a particular set of years (i.e.- 2025, 2030, 2035) when you think you are going to 'retire', and get your investments set up where the investment company thinks a person with that time horizon should be properly allocated. Although we are not big fans of investing your 401(k) this way, it is your easiest option to just put your 401(k) on auto-pilot.

2

BUILD YOUR OWN PORTFOLIO - Most 401(k) plans will have somewhere between 10 to 50 options depending on how your employer sets up the plan. Usually the larger the employer, the fewer choices you will have in the plan. The plan will give you the track record of the history on how each mutual fund (or ETF) has done in the plan. The important part for you to research is the manager running the fund. Sometimes a fund can have a great track record, but have recently changed management teams. The same can be true with a fund that performed poorly in the past. If a really good manager takes that fund over, it could mean a positive change to how the fund will perform in the future. If you don't know what to pick, then it may be time to get help from an outside advisor.

3 SELF-DIRECTED BROKERAGE ACCOUNT - You will mostly find these at larger companies, but your employer may allow you to take all or some of your 401(k) and simply manage it yourself through the financial institution that handles your 401(k) plan. This option can be great for a savvy investor, or for someone who truly wants to get hired help to really actively manage your 401(k). In this type of plan, you may be able to buy any type of mutual fund, exchange traded fund, stock, or bond giving you the investor maximum choice and flexibility in your 401(k) plan.

When it comes to IRA (and Roth IRA) investing, there is truly a smorgasbord of different kinds of investment strategies. Remember that just because you opened your IRA at a bank, brokerage house, or insurance company, you are not required to leave that IRA where you originally opened the account. With IRA transfers, you can move that IRA to a new institution if you want to change advisors or investment strategy. Here are a few different ideas to think about for investing your IRA.

1 DO A CORE SATELLITE STRATEGY - Remember that IRA's can buy stocks, bonds, CD's, money markets, mutual funds, exchange traded funds, and much more. Whether you buy mutual funds or exchange traded funds (We are bigger fans of indexing), the core part of your portfolio should represent a mixture of equity and bond type funds that make an appropriate asset allocation for your risk tolerance and time frame to retirement. The important part here is to get the mix right and closely look at the expenses of what you are buying as cost eats into return. You can subscribe to a website like www.personalfund.com to see what your mutual funds are charging you and get lower cost options. The core part of the portfolio should represent about 80% of the money. The satellite part of your portfolio will be where you take some risk and buy stock in individual companies or other investments where you can gain some more substantial upside potential. The satellite portion of the portfolio will represent about 20% of the money.

2 REAL ESTATE IRA - We will say up front that you need to consult a really good CPA and also closely read the rules on www.irs.gov. as it relates to prohibited transactions for IRA accounts. With commercial, residential, and land prices seeing significant drop in valuations, you may be able to pick up 'real' real estate within your IRA account. You won't be able to have any personal use whatsoever with the real estate, but it isn't an option that most consider.

3

PRIVATE EQUITY - We are not huge fans of private equity investing due due to the fact that your lack of control and liquidity are major issues. However, if you are going to take a risk for a portion of your retirement to go for the 'home run', see if the private equity venture will allow you to use your IRA money. Due to the tough times of raising capital, more of the private equity ventures we see will allow for using IRA money. This may give you the opportunity to take a risk without having to liquidate current bank accounts. You should also review all of these very carefully with a financial advisor, CPA, or attorney before making any decisions.

Since your IRA and 401(k) accounts will be the bulk of your retirement income in the future, take a step back r to see if you have the right strategy in place now based upon your risk tolerance, time frame, and other factors to make sure your strategy is suitable. It is important that you empower yourself by understanding what you are doing with your money even if someone is giving you guidance along the way.