Money Matters

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Question of the Month: Can I Boost My 401(k)?

By Aaron Skloff

Q: Can gaining help with my 401(k) really improve my performance and optimize my risk?

A: Yes. In a recent study based on nearly 400,000 401(k) participants, the average participant who did not seek help fared poorly in comparison to those who did seek help. On average, the median annual return for participants who did not seek help was almost 2% worse (net of fees) than participants who did seek help. Note: The study included one bull market year (2006), one mixed market year (2007) and one bear market year (2008).

The primary reasons for the poorer performance among participants not seeking help are:

- Inappropriate Risk Levels. In many cases, participants far from retirement were invested too conservatively while those close to retirement were invested too aggressively.
- Inefficient Portfolios. In many cases, participants not seeking help are not being compensated for the risk they take.

To quantify the impact, let's look at an example after 40 years, where each makes a lump sum contribution of $10,000 at age 25. Based on median returns of approximately 6%, a participant seeking help could have 103% more money ($105,800) than a participant not seeking help. Participants seeking help outperform participants not seeking help 88% of the time.

When seeking help, verify the information is coming from a reputable and unbiased source. Many 'Financial Advisors' responsible for providing help on your 401(k) plan are not qualified. Few have a graduate degree in finance and/or a certification in portfolio management, such as the Chartered Financial Analyst (CFA). Few have formal training and experience in portfolio construction and risk control.

To make matters worse, even fewer will accept true fiduciary duty. True fiduciary duty legally obligates the provider of help to place the participant's interests before any other party: the provider of help, the provider's employer or the shareholders of the employer.

Unfortunately, many of the largest wealth and investment management companies are publicly traded companies owned by shareholders. And, like all publicly traded companies, they must act in the best interest of their shareholders — not their clients. A privately owned Registered Investment Advisor (RIA) is legally obligated to accept true fiduciary duty, without conflicts.

Remember, this is your life savings not an experiment for the inexperienced. Work closely with a credentialed, experienced Financial Advisor affiliated with a privately owned RIA, legally obligated to accept true fiduciary duty, without conflicts.

Note. Aaron Skloff, Accredited Investment Fiduciary (AIF), Chartered Financial Analyst (CFA), Master of Business Administration (MBA) is CEO of Skloff Financial Group, a Registered Investment Advisory firm based in Berkeley Heights. He can be contacted at www.skloff.com or 908-464-3060.