ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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Avoid These Retirement Savings Blunders

Earlier this summer, we explored ways to get your teenagers excited to begin saving for retirement. This time, we're going to review some common mistakes that can befall even the savviest investor as they craft their own retirement savings plan.

In our more than 20 years of partnering with our clients to create risk-aware, long-term investment plans that work for them, we've encountered all of the missteps we'll discuss below (and plenty more).

While uncertainty about global growth and unpredictable geopolitical events may have moved the markets in ways that dealt short-term negative impacts to your retirement accounts—not to mention your nerves—we always point out that with losses come the opportunity for buying at lower prices, something any money manager worth her salt will capitalize on.

Pulling out of stocks in favor or bonds or cash to "protect" your account is just one of the mistakes that investors will make when market volatility is high or fear trumps facts on Wall St. We believe it's *time in the markets*, *not market timing* that will lead to successful long-term results.

With that said, here are five retirement savings blunders it pays to avoid.

1. Taking a "Hands Free" Approach

Ideally, your company's 401(k) or 403(b) retirement plan offers you a wide range of well-managed, low-cost funds, with ample options for putting together a diversified portfolio. But in reality, many such plans do not offer much choice, let alone low-cost funds. By doing nothing and letting your hard-earned investments languish in an account with limited and overpriced options, you're unable to fully maximize your retirement savings or implement the most effective strategy for your needs.

SOLUTION: When our clients' company retirement plans stick them with a dearth of investment options or high fees, we suggest that they move their assets to a rollover IRA when they retire. They get the same tax-free savings and investment power, but with lower costs and much greater choice.

2. Cashing Out

You can cash out of your 401(k) or (403)b when you retire, or opt for a lump sum when you switch jobs. However, taking a lump-sum distribution can really cost you. When you make withdrawals from your retirement plan, you are responsible for paying income tax on the entire value of the distribution. All withdrawals from a 401(k) or 403(b) are taxable—since you made your contributions pretax, the government is going to come after its share of both your savings and the gains you've made over time.

Plus, if you're under 59½ years old, withdrawals become even more costly. You will be taxed not just on the distributions, but are also subject to a 10% penalty for making an early withdrawal.

A final consideration involved in cashing out: It's possible that by taking a lump-sum distribution, you'll put yourself into a higher tax bracket, making the transaction even costlier.

SOLUTION: When considering cashing out of a plan, you need to be well prepared. First, you ought to consider whether it makes more sense to pay taxes on your account now, in your current tax bracket, or if it would be preferable to roll your account over into an IRA and pay taxes later in retirement, when you may fall into a lower bracket. (If you know that you'll be in the same or a higher tax bracket in retirement, a Roth IRA is also a worthy consideration.)

Second, if you do decide to cash out or take that lump sum (or to rollover to a Roth IRA), you'll need cash on hand for that year's tax bill, which could be quite large, depending on how much you've saved up over the years.

3. Relying too Much on Company Stock

The classic proverb says it best: "Don't put all of your eggs in one basket." The same goes for investing too heavily in your company's stock in your retirement plan. If the unthinkable happens and your company hits hard times or goes out of business, you could face the unwelcome double-whammy of losing both your job and everything you've worked so hard to save for retirement in one fell swoop. (For a high-profile example, think of Enron, where this exact scenario played out, to the chagrin of thousands of employees.)

SOLUTION: It's fine (and understandable) to make your company's stock part of your retirement portfolio. But we advise our clients to keep that portion of their invested assets small enough so that if disaster strikes, their future financial well-being remains secure.

4. Failing to Contribute Enough

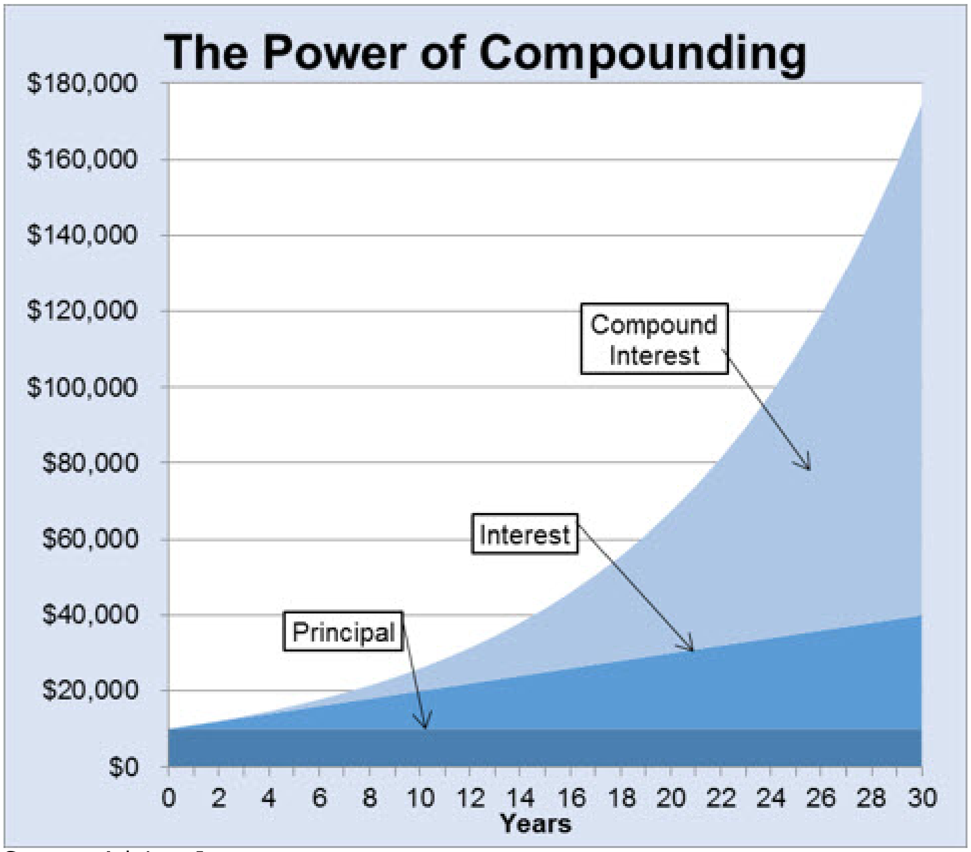
While it can be difficult to deprive yourself of hard-earned cash in the short-term by contributing the maximum to your 401(k) or 403(b), how much harder do you think it would be to face having to look for another job to make ends meet after your so-called "retirement?"

Saving as much as you possibly can while you're still drawing a paycheck is your best defense against running out of funds after you've stopped working. And thanks to compounding, the more you have invested, the greater your potential earnings. This is why we recommend that clients contribute as much as they can to their retirement savings plans.

Also, be sure to check whether your company has a matching funds policy, where they'll match your contribution up to a certain point. If so, by not investing in the company plan, you're essentially passing up free money.

Compounding is a powerful investing tool. The more money you have working for you in your retirement account—compounding gains upon gains, year in and year out—the plumper your retirement goose will grow.

The chart below demonstrates the potent investment fuel compounding brings to your savings. In this example, $10,000 is put into a hypothetical investment in the stock market and grows 10% annually over 30 years (roughly the annual return of the S&P 500 over the last three decades). Interest represents the earnings gained on that initial principal invested, a moderate gain. But the majority of the nearly $175,000 after 30 years comes from the ever-increasing earnings made off of previous gains. That's the power of compounding.



Source: Adviser Investments.

5. Investing Too Conservatively

This is one of the most common mistakes we see people making when saving for retirement or managing their IRA rollover. The logic, such that it is, goes that because the money they're putting away is so critical to their future financial security, it should only be invested in risk-free or ultra-safe funds. This can become a painful misconception as the adverse effects of inflation can and will erode the purchasing power of your retirement assets over time.

To succeed over the long term, we advise our clients to invest a sizable portion of their assets in stocks. There's no need to take wild risks, but the goal should be to grow a retirement portfolio over time and maintain the "real" value of assets after accounting for inflation.

We understand that this advice could have a short-term, negative impact on retirement savings in a down market. But ultimately, a long-term focus will overshadow shorter-term volatility. Historically, stocks have significantly outperformed bonds and cash, a trend we expect to continue for the foreseeable future.

About Adviser Investments
Adviser Investments and its subsidiaries operate as an independent, professional money management firm with particular expertise in Fidelity and Vanguard mutual funds. We advise more than 2,500 clients and have over $3 billion under management. Our investment professionals focus on helping individual investors, trusts, foundations and institutions meet their investment goals. Our minimum account size is $350,000. In 2015, Adviser Investments was named to *Barron's* list of the top 100 independent financial advisers nationwide and its list of the top advisory firms in Massachusetts for the third consecutive year. We have also been recognized on the *Financial Times* 300 Top Registered Investment Advisers list in 2014, 2015 and 2016.

For more information, please visit www.adviserinvestments.com or call 800-492-6868.

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