The Abernathy Group II
Family Office

Uncertain Times Ahead?

Here are 4 Ideas to Help Prepare

When 401k retirement plan investors emerge from a difficult year, it's easy to become fearful that each year to come will deliver the same - or similar results. However, history shows this is seldom the case. In fact, more times than not, the year following a down year in the U.S. capital markets is a positive year.

The 2023 year to come is promising to be a year marked with uncertainty. An intelligent game plan regarding your 401k Plan investment will often help you outsmart uncertainty, and will allow you to sleep well at night knowing you are positioned well for the future.

Here is the challenge: The game plan is likely to be different for each investor.

Here are some tremendously important considerations for creating an intelligent game plan.

One of the most important determinants of how you approach developing a game plan involves the amount of time you have before you will be needing the assets in your 401k plan.

A General Starting Rule

The more time you have before you need the assets, the less you should worry about current daily and/or monthly events. The more time you have to invest, the more assertive your asset allocation should be because taking a bit more risk often delivers higher returns.

The less time between now, and your need for the assets, *the less risk you should be taking*. Your asset allocation should be measured with an emphasis on asset safety as opposed to asset appreciation.

Idea #1: Increase Your Emergency Funds

It is generally accepted that every investor should have approximately 6 – 12 months of living expenses in a safe, liquid account. This liquid account will provide you with living expenses if troubled times result in layoffs or a period of reduced income. *For those working in an industry that is vulnerable to layoffs, you might consider 12-24 months of income in a secure bank account.

This cash cushion can help you avoid accumulating credit card debt or withdrawing assets from your retirement account earlier than needed. A cash cushion is especially helpful if you lose your job or if there is an unexpected expense.

There are high-yield savings accounts available today which are both insured and easy to access. If you search successfully these liquid accounts will return 4% or more, while providing security that allows you to sleep well at night. (Ask us for recommendations if you have trouble finding these savings accounts.)

Rob Williams, a managing director at Charles Schwab noted, "Recessions come, and recessions go. As long as you have a lengthy investing time horizon and some liquid cash set aside, you can stick to your game-plan whether the recession comes or not."

Idea #2: Consider Increasing your 401k Plan Contributions During Recessions and Uncertain Times

While this recommendation may seem counterintuitive, it is often intelligent advice. When you have 10 years or more before you will need the assets you have saved pre-tax, in your 401k plan, you should be hoping and wishing for lower prices each and every day. Reason: lower prices allow you to invest in high quality assets at bargain prices during difficult times, like recessions.

Recessions eventually end and the prices of those high-quality assets increase in value, often significantly. As Warren Buffett would advise – from the day you start working and investing in your retirement plan, you should wish for bargain prices right up until the day you retire. Eventually the markets will become more reasonably valued and at times will even become over-valued. As you near retirement or as you near the time you will need your assets, you should reallocate your assets to reduce volatility and increase stability.

"For 2023, the Internal Revenue Service raised the limit for 401k plan contributions to $22,500 (which is an increase from $20,500). Plan Participants 50 and older are allowed an extra $7500 in catch up contributions (an increase from $6500 last year)." This means you can safely save more of your hard-earned money, tax free, and enjoy your retirement years.

Idea # 3: Rebalance Your 401k Plan Routinely

Rebalancing your 401k plan routinely allows you to "buy low and sell high." This is a recipe for successful investing.

In essence, rebalancing your account often allows you to sell the assets which have appreciated relative to those that have depreciated. This reallocation process constantly allows you to keep your asset allocation in line with your risk tolerance.

Take for instance a 401k Plan Participant with 10 or more years until retirement. In this example, the 401k Plan Participant has chosen to have a risk profile amounting to 50% stocks and 50% bonds.

If the stock market allocation increases to 60%, and the bond allocation is now only 40%, rebalancing the account back to 50% stocks and 50% bonds will allow you to sell the higher priced stocks, and buy the lower priced bonds. Consistently selling higher priced assets and buying lower priced assets allows investors to benefit from the "Reversion to the Mean" principle. This is an important advantage and it's tax free. It also allows the Plan Participant to remain disciplined, follow their game-plan, and remain within their risk tolerance – always a smart move.

Idea #4: Meet with your 401k Plan Advisor Several Times Per Year

This is one of the most helpful services available, and can be taken advantage of by every single Plan Participant – and it's free!

By meeting with your Plan's advisor 2-4 times per year, you will be able to remain educated, and to take advantage of the most important events affecting your 401k Plan, and it only takes 15-20 minutes.

Knowing how much you will need to retire, and knowing whether you are contributing enough to retire on time, are valuable topics the advisor is prepared to help you determine and understand.

Another topic is risk. *Are you taking enough risk*, given the number of years left until retirement? Alternatively, *are you taking too much risk,* given the current investment and economic environment? Finding the answers to these questions may be the difference between retiring on time or working later than you planned.

Remember, this is your money. You earned it by working hard, and it is your responsibility to ensure you are overseeing it properly. And if you are unable to oversee these assets, or if you just are not interested in the administration of your retirement plan – there is someone available to help. Our recommendation is to use the advisor as they are highly qualified to help you answer meaningful questions. The advisor's only bias is to help you make well informed decisions about your investments and about your future – and it's free.

If you are the type of investor who chooses to select one strategy, ignore the talking heads on television, and stay with your strategy for the long-term (congratulations – this is exactly what intelligent investors should do!), the 401k Plan advisor can help you determine when another strategy may be more appropriate for your goals, or if your current plan embraces too much risk. Additionally, there may have been new alternatives added to your 401k Plan and those alternatives may become useful additions to your current strategy.

Staying on top of the information affecting your assets is your responsibility and visiting with the 401k Plan advisor costs nothing and takes only 15-20 minutes 2 – 4 times per year.

Investing 1-2 hours of your year to maintain an educated oversight of the assets that will allow you to retire on time and in a manner you are accustomed to, is a small investment to make for a long and successful retirement.