401k Investing: Frequently Asked Questions

THE TRUST COMPANY

Guidance you can trust.

My 401k account has lost value - where did it go?

If you own stock mutual funds in your account, you have experienced a decline in market value over the past year. The decline in value occurred because the prices of the stocks owned by the mutual funds have dropped. Among developed global stock markets, the average decline was in excess of 40% for 2008. The majority of the decline occurred in October and November, as fear set in among investors concerning the global economy and the financial crisis. **It is important to remember that you still own just as many shares of stocks, but the value of each share of stocks is lower than it was a year ago.**

Should I sell my stock holdings and move to something safer, like bond or money market funds?

We do not recommend that you change your allocations unless you need access to the money earlier than expected (within the next 5 years). If you can ride out the downturn, you should benefit in the long run. The longer you have to stay invested, the greater the probability for recovery and gain. We suggest that you start to make your portfolio more conservative once you are within 10 years of retirement. Until then, we suggest that you allocate at least 50% of your account to stocks.

Should I stop making contributions if the market keeps going down?

No. In fact, we advise the opposite. You make money in the stock market by buying when stocks are low and selling when they are high; thus, this is a great time to invest. That is not to say that the market could not go lower, but a long-term investor (with an investment time horizon of at least 5 years) should realize a positive return even if the markets decline to lower levels in the short term. Although we expect 2009 to be another volatile year in the stock market, this is not a reason to flee the market or stop contributing to your 401k. When the volatility slows down and the dust settles, those who were patient should benefit from positive returns.

What if I get out of stocks now and get back in when they start doing better?

We encourage you to hold tight. If you sell now with the intention of buying back in later, you have become a "market-timer." Keep in mind that you would have to be right twice: first, when to get out, and second, when to get back in. This is a perfect recipe for losing money because emotions tend to drive investors to buy high and sell low. A buy-and-hold strategy may not be complicated or exciting, but history demonstrates that it works.

When will the market start to go back up?

A downturn in the stock market lasts an average of 32 months. The stock market started down in October 2007 and it could be some time before things look better for the economy. What history tells us is that the stock market starts to recover 6 to 9 months before the economy recovers. **Generally, the best returns are at the beginning of the market recovery. If you sit on the sidelines until the market starts to go up, you risk missing out on a significant portion of the recovery and thus have far lower cumulative returns than those investors who stay the course.**

What is the best strategy for someone more than 10 years from retirement?

As long as you are 10 or more years away from retirement, we advise most investors during their working years to invest primarily in equities. As history continues to show us, there is short term risk in the market, but the longer you have to invest, the more you increase your opportunity for significant gains.

What is the best strategy for someone close to retirement or in retirement?

When you are approximately 10 years from retirement, we recommend that you begin to systematically reduce your stock exposure and increase your fixed income exposure. The rate at which you do this is dependent upon your expectations. For example, if you plan to cash out and spend it all at once, you want to make sure your balance is 100% in fixed income 3 to 5 years before retirement. If you plan to slowly withdraw your balance during your retirement years, you may target a retirement allocation of approximately 40% stock and 60% bond. Currently, life expectancy is in excess of 80 years. Therefore, it is important to maintain some stock exposure during retirement n order to stay ahead of inflation.

To summarize, the stock market is no stranger to unexpected short-term drops due to fear and panic (9/11, tech bubble, S&L crisis, oil embargo, etc.). But the long-term opportunity for average annual returns exceeding other investment types remains. Investing in stocks may or may not be appropriate for everyone. Please see the attached risk profile questionnaire to find an asset allocation that may be appropriate for you.

We appreciate your business at The Trust Company! Please contact us if you have additional questions, concerns, or would like advice about your personal balance.

(865) 971-1902
www.thetrust.com