

Managing Your 401(k) During Times of Market Turbulence

As a result of the recent market downturn, many participants are left wondering what to do with their 401(k) and how best to protect it in light of such a challenging economic picture. As many would guess, there is not a one-size-fits-all approach to managing your 401(k). Participants should consider their assumed level of risk, investment time horizon, assets outside of their 401(k), and financial goals.

Market volatility is virtually unavoidable. The value of stocks and bonds increase and decrease daily. Most people understand and accept that risk when investing in financial markets. However during prolonged periods of uncertainty and market turbulence, many people become unnerved and want to do anything they can to safeguard their investments.

We have provided below three courses of action. These strategies have shown themselves to be beneficial over the long-term.

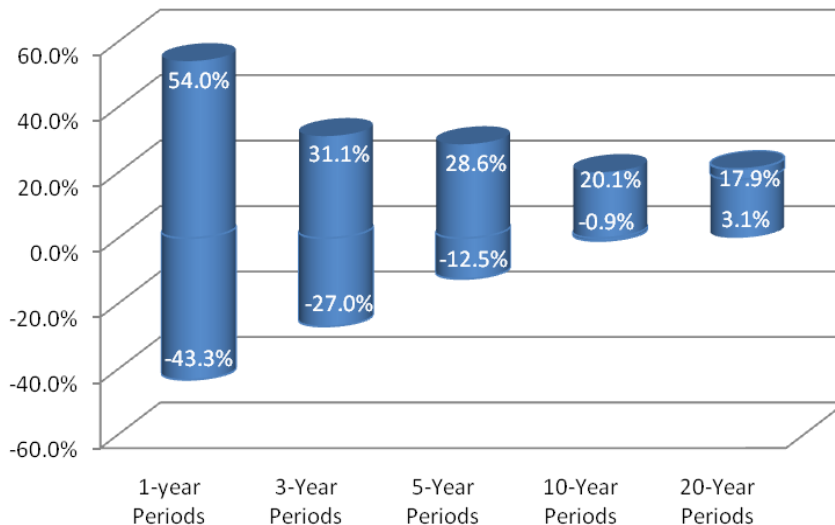
Strategy: Make a long-term plan and stick to it.

It is a natural instinct to want to pull out of the market during times of volatility and downturns. A common mistake investors make is buying high and selling low. By doing so, those investors are restricting their ability to participate in market gains.

To help take the emotional aspect out of your investment decisions, create a long-term investment plan and stick to that plan. While past performance is not indicative of future performance, over the long term stock and bond prices have gained in value despite times of volatility and market downturns. The chart below exemplifies how you can mitigate some loss risk by holding investments long-term.

Lengthening holding period may reduce downside risk

Diversified equity portfolio as represented by the S&P 500® Index (1926-2007)



Source: Schwab Center for Financial Research with data provided by Standard and Poor's. Every 1-, 3-, 5-, 10-, and 20-year rolling calendar period for the S&P 500® Index was analyzed from 1926 through 2007. The highest and lowest annual total returns for the specified rolling time periods were chosen to depict the volatility of the market. Returns include reinvestment of dividends. Indices are unmanaged, do not incur fees or expenses, and cannot be invested in directly. Past performance is no indication of future results.

Strategy: Keep contributing to your 401(k).

It is common for some investors to try and time the market by not investing during market downturns and investing more heavily during market upswings. Unfortunately, trying to “time” the market is difficult at best for even the most experienced professionals. By trying to participate only in the upswings, you can miss out on periods of high growth.

Instead continuing to defer at regular intervals into your 401(k) will provide you with the advantage of dollar-cost averaging. Dollar-cost averaging is the technique of buying a fixed dollar amount of a particular investment on a regular schedule regardless of the share price. This will result in more shares purchased when prices are low and fewer shares bought when prices are high; thereby reducing your average cost per share.

Below is an example of how dollar-cost averaging can benefit an investor.

Date	Price/Share	Shares	Cost
January 1 st	\$20	50.00	\$1000
April 1 st	\$15	66.66	\$1000
July 1 st	\$10	100.00	\$1000
October 1 st	\$18	55.55	\$1000
Total		272.22	\$4000
Average Price Per Share	\$14.69		

Strategy: Determine your appropriate asset allocation.

The appropriate asset allocation should match your long-term savings goals while considering your financial risk tolerance. Having established an appropriate asset allocation may help you weather the changes that occur during market downturns. That is not to say that your account will not experience decreases, however knowing that you are diversified and allocated properly may help alleviate some of the emotional strain.

Conclusion

It is never easy to experience financial market downturns; however these strategies may prove beneficial to you over the long-term. Making smart decisions such as sticking with your long-term plan, taking advantage of dollar-cost averaging, and ensuring that your account is allocated correctly may provide you with the peace of mind during uncertain times.

Respectfully,

AKT Wealth Advisors