

## Keep On Investing

Cheryl Holland

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**Retirement**

*Plans*

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**Cheryl Holland** is President of Abacus Planning Group, Inc., a Columbia, South Carolina-based fee-only financial planning group and investment counseling firm that provides advice to individuals, small business retirement plans, and endowments. She holds a degree in economics from Bryn Mawr College.

**T**he last two years have been uncommonly unsettling for U.S. stock investors. We thought we had steeled ourselves to survive a bear market by repeating the mantra, “invest for the long term.” But the realities of continued declining values in the U.S. stock market, coupled with corporate malfeasance, have significantly lessened many investors’ appetite for market risk. For some, it has called into question whether they should be investing in the stock market or even in their 401(k) or other type of retirement plan.

The current investment climate is one of excessive fear, just as the '90s was an era of excessive greed. And fear is a powerful emotion. Nightly reminders of the destitute rank-and-file employees of Enron, or even glancing at our own savings statements, can make us panicky. But what we need to remember is that the *habit of saving* is the most critical component to securing a comfortable retirement — not the returns of the up-and-down stock market.

### Save Early and Often

Investing for retirement through a 401(k), 403(b), and/or an IRA is still the cornerstone for proper retirement planning. This is because most of us no longer work for the same corporation or government agency for 30 years — jobs that used to provide pensions for a secure retirement. So invest you must — and begin early.

My favorite financial planning “morality play” is the story of two women who both start jobs at age 22 after graduating from college. One immediately begins to save \$2,000 a year in her IRA. After working for eight years, she stops to raise a family and never contributes to her IRA again. The other woman starts out by enjoying her new car, traveling, and buying plenty of clothes. She does not begin saving for retirement until age 35. For the next 30 years, she invests \$2,000 each year in her IRA. Both IRAs earn exactly the same rate of return over this time period. At 65, the woman who invested early — but for just eight years — always has more money in her IRA than the other woman, no matter whether both accounts grew at 6 percent or 8 percent or 10 percent. It is the incredible power of compounding dollars that is the first woman’s key to success. Combining the compounding of earnings with the tax-free environment of a retirement plan makes it the single best savings option for securing your future.

For a South Carolina investor in the lowest income tax bracket, saving \$1 through a retirement plan is an automatic savings of 20 cents. Moreover, if your corporation matches 50 cents of every dollar, you have almost doubled your investment immediately. I don’t know of many sale specials that are better than 2 for 1. In addition, the

contributions and matching dollars grow tax-free. But if you keep the dollar rather than deferring it to your retirement plan, 20 cents goes to the state and federal government as income taxes, and you have only 80 cents of that dollar left to spend or invest.

### Diversify, Diversify

The Enron and WorldCom debacles have left many investors worrying about the security of their own 401(k). But it was not the Enron 401(k) itself that was the problem. The problem was that Enron officials limited the investment options within the 401(k) until most employees reached a certain age, with the upshot being that most of the participants were investing exclusively in Enron stock. They were induced to forget that diversification is the key to successful long-term investing. But Enron employees are not the only ones forgetting that age-old advice. Surprisingly, 40 percent of Americans who participate in a 401(k) still have over half of their investments in their own company's stock. The Enron lesson has not been learned by other companies' employees.

This is not a new lesson. In my early years as an independent advisor, many of my clients were IBM employees in South Florida. In the 1980s, IBM was the GE or Microsoft of today's investment world. IBM could do no wrong, and its stock was seemingly gilt-edged. Then

suddenly, IBM began to lose money. Many of my clients lost their jobs, and the price of IBM's stock declined by 50 percent. IBM employees who had all of their 401(k) invested in IBM lost much of their net worth.

I have told clients ever since that I would much rather they be worth \$1 million than \$2 million. To use a baseball analogy, I'd prefer they get singles and doubles rather than going for the home run and striking out altogether. It is a home run mentality that leads many investors to miscalculate the risk of the stock market.

It is difficult to be an investor in this era because there is so much information available, and its quality is difficult to judge. If you want to independently evaluate your own retirement plan, there are a number of good Web sites which can provide valuable information. Among the best are [www.financialengines.com](http://www.financialengines.com), [www.morningstar.com](http://www.morningstar.com), and [www.mpower.com](http://www.mpower.com).

### The Secret

Like any good decision, making investment choices within your retirement plan requires a commitment of time, research, reflection, and follow-through. As John Bogle, retired chairman and founder of The Vanguard Group, puts it: "The secret of investing is that there is no secret other than to put your money away regularly and intelligently, and stay the course." □