ACTIVELY MANAGED 401(k)s

An option which may help to reduce volatility & enhance performance.

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How should your 401(k) be invested? While some investors enjoy managing their 401(k)s themselves, others seek a different kind of "hands-on" approach. They want their retirement plan assets to be actively and professionally managed.

Why should a 401(k) be actively managed? Most 401(k) participants don't change asset allocations in response to market conditions. In fact, some don't adjust their investment mix for years. Whether this reflects a "buy and hold" approach or just plain inattention, this passivity can be problematic.

Some core problems with passive or reactive approaches. When employees change their 401(k) investment preferences, they are often responding to a bad quarter - the 401(k) lost X%, so it must be time to get out of stocks and move money into cash or bonds. Correspondingly, many employees lose out on great market gains because they take too long to get back into stocks and funds when a bull market starts.

There are two central problems with this DIY approach: 1) the average employee doesn't have the knowledge base of a financial adviser; 2) the stock market does not move once every three months, it is constantly moving and invested assets need to be monitored in light of that reality.

Many funds offered to 401(k) participants simply move with the market. Target funds and asset allocation funds are quite diversified – perhaps to a fault. As a result, their performance can often mimic the broad market – which is not good when the market is tanking.

Is there another way? Yes. If your goals are to make money in a down or volatile market or reduce the losses brought on by volatility, then an actively managed 401(k) may be appealing. Active investment management relies on technical analysis with the twin goals of buying near support levels and selling at resistance levels.

While 2011 was essentially a flat year for the S&P 500, the volatility in stocks was remarkable. More to the point, as 2011 drew to a close the S&P 500 was down about 14% in the past five years. Active professional management of your 401(k) may help you lower potential losses brought on by sector or asset class downturns, and skilled money managers may find opportunity for gains in volatility.[1]

Active investment management has real merit for today's 401(k) participants. Best of all, you can opt for it without having to get permission from your employer or plan administrator. Active 401(k) management is associated with higher plan fees, but the fees may be a very small price to pay if the performance of the 401(k) improves.

Ask about this option. When you do, ask if you can see some of the performance metrics that go along with it. They may impress you. While past performance is no guarantee of future results, an actively managed 401(k) has the potential to beat the market.

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