SAVEAWAY401K | RETIREMENT GUIDE

RETIREMENT IS NOT COMPLICATED, BUT THERE ARE A FEW KEY THINGS YOU SHOULD KNOW...

Time Horizon: Probably the most overlooked factor in investing is your time horizon. The longer you have to invest in your retirement, the longer you get to take advantage of Compounding Interest.

Market Timing: Trying to time the ups and downs of the market is probably one of the worst things you can do in your retirement portfolio. Consider this quote from one of the greatest fund managers of all time, Peter Lynch:

> ***"Since World War II, despite nine recessions and many other economic setbacks, corporate earnings are up 63 fold and the stock market is up 71 fold. Corporate profits per share have grown***

> ***over 9% annually despite the down years. Nine percent may not sound like a lot but consider that it means that profits mathematically double every eight years, quadruple every 16, are up 16 fold every 32 years and are up 64 fold every 48 years. Even if earnings rates slow to 6-7%, the compound gains will still be impressive over 10-20 years."***

As Lynch demonstrates with this quote, it's better to get a diversified basket of equities, and hold them over the long term.

Investment Options: Probably the most important considerations you can make when choosing investments is the expense of that investment. Historically speaking, Mutual Funds have been a very expensive way to invest. Research shows that 70% of actively-managed Mutual Funds do not outperform their comparable Exchange Traded Fund (ETF) over a 10 year time window. That means you are paying a fund manager to get as-good or worse returns on your investments.

One of the benefits of investing in Exchange Traded Funds is that they come with a very low expense ratio. The reason for this is that ETFs are managed by a computer and just mirror indexes. Take the S&P 500 which has 500 of the largest US companies. Your typical Mutual Fund that attempts to mirror the S&P 500 has associated expenses of 100-200 basis points (1-2%). The SPY ETF, which also mirrors the S&P 500 has associated expenses of just 5 basis points (or .05%). That additional .95% or 1.95% can have a massive impact to your account balance over a 20-30 year time horizon.

Compounding Interest: The power of compounding interest works for people that have a long savings time horizon ahead of them. Let's give a simple example:

Three people started saving for their eventual retirement, let's call them Jenny, Joseph, and Robert.

Jenny understood the power of compounding interest, as her Dad was a Financial Advisor and extolled the values of it on her from an early age. Her first year out of college, she was just finding her feet and learning to balance her budget. Starting at age 25, she started investing $1,000 per month and did so every month until she was 35 (10 years). At that point, she stopped investing in her retirement account and just let her account continue to grow. The account grew at 7% until she retired at age 65.

Joseph married Jenny when they turned 30 years old. She told him about her plan to save for retirement, but he wasn't totally bought in. Finally, after years of convincing, Joseph started putting $1,000 a month (just like Jenny) into his retirement account at age 35. Joseph and Jenny were competitive in their savings account, and he was determined to catch up to her balance. He invested $1,000 a month for 10 years until he was 45 years old, taking on the same 10 year plan that she had.

Their told their friend Bob about their plan right around the time Joseph was winding down his contributions to his retirement plan. Bob thought it was a good idea and he started investing $1,000 per month just like Jenny and Joseph. He did this every month from age 45 to 55, also occurring a 7% rate of return.

Despite the fact that Jenny, Joseph, and Bob all invested $120,000 toward their retirement, their account balances looked very different on their 65th Birthday.

Based on a consistent rate of return (for our example we used 7%), and the compounding interest factor here is what their account balances looked like:

Account Holder	Dollars Invested	Ending Account Balance
Jenny	$120,000 (over 10 years)	**$1,444,969**
Joseph	$120,000 (over 10 years)	**$734,549**
Bob	$120,000 (over 10 years)	**$373,407**

The moral of the story? Start investing as early as you possibly can, even if you don’t have $1,000 to put into your retirement account. Having your retirement savings take advantage of the miracle of compounding interest can work for anyone, but in order to take advantage of it you need to start early and make consistent contributions.

Consistency: The best way to ensure that you are consistent is to Auto Enroll in your 401k. Auto Enrollment means that you elect a certain percentage to be taken out of your paycheck and invested into your 401k. It’s better to do that from the start, as you’ll never even miss the money your putting away for retirement.

Learn more about these concepts and others by contacting a SaveAway401k Account Representative: sales@saveaway401k.com