



401K PLAN BASICS

Showing Up is the Most Important Thing

The first question you might ask is, “What is the most important thing I need to build my retirement savings?” It’s showing up. Saving on a consistent basis. Just like exercise & diet, the particulars aren’t that important. The most important thing is showing up & sticking to the chosen routine.

Physical health can be summed up with eat less, non-processed foods, exercise regularly. The noise around a keto diet, South Beach Diet, Pizza abs diet, cross fit, Tae Bo, shake weights, or whatever the new fad is doesn’t matter when showing up is what is most important.

Financial health is similar: save, pay yourself first, allow compound interest to happen, don’t interrupt the process. This above all else matters... more than how you allocate your balance, what funds you invest in, how well you time the market, and how your investments perform.

None of us are perfectly rational logical robots able to maximize financial returns. If MORE information was the answer, we’d all be millionaires with perfect abs. It’s being REASONABLE with yourself and knowing what that is to be able to stay the course and remain disciplined.

More Info in the Addendum: “The Psychology of Money”

Pay Yourself First

“Pay yourself first” means building your spending plan AFTER you’ve allocated money towards your savings goals. But be REASONABLE, not perfectly rational & seek maximum robotic efficiency. Yes, allocate money towards your retirement, but also budget for a fun vacation or purchase.

There’s a saying, “If you don’t know who you are, the stock market is an expensive place to find out”. Learning how to pay yourself first will help you know who you are when it comes to your relationship with money. Most people have never truly contemplated their relationship with money and learning how to comfortably pay yourself first is a good way to start.

More Info in the Addendum: “The Psychology of Money”

Don’t Trade: Time IN the Markets is more important than TIMING the Market

Time IN the markets is far more important than TIMING the markets. Even if you only invested at the worst possible times, but LET IT BE until retirement, you would be OK if you were saving enough. This goes back to your relationship with money, knowing yourself, and being reasonable with yourself. By paying yourself first, in a reasonable and kind way, you’ll be able to resist the urge to *DO SOMETHING* when you should just *LET IT BE*. When social media, television, news flashes of all kinds are selling financial doom... can you let it be? And when social media, television, news flashes of all kinds are selling the glory of the markets, cryptocurrency, and stories of people getting “rich”... can you let it be?

More Info in the Addendum: “What If You Only Invested at Market Peaks”

The Power of Compounding: tax-free vs taxable

Einstein (people say he was a smart person) is supposed to have said, “Compound interest is the most powerful force in the Universe.” Allowing the force of compound interest to accumulate without interruption is the most important part of retirement savings & wealth building. A qualified retirement plan like a 401(k) helps the power of compounding to take place:



401K PLAN BASICS

Take Home Pay with a Retirement Account		
	With a Retirement Plan	Without a Retirement Plan
Weekly pay before tax	\$577	\$577
4% pre-tax contribution	\$23	\$0
Taxable Income	\$554	\$577
Take-home pay after taxes	\$399	\$415
Total Pay kept	\$422	\$415
	(\$399 + \$23 for retirement)	

**This table assumes a hypothetical 28% aggregated tax on all wages. This example is for illustrative purposes only. Your marginal tax rate may differ.*

Account Balance Growth of \$10,000		
	With a Retirement Plan	Without a Retirement Plan
Starting Balance	\$10,000	\$10,000
After Year 1	\$10,800	\$10,640
After Year 3	\$12,597	\$12,045
After Year 5	\$14,693	\$13,636
After Year 10	\$21,589	\$18,595
After Year 20	\$46,609	\$34,580

**This table assumes a hypothetical 20% tax on all investment gains AND an annual investment gain of 8%. This example is for illustrative purposes only. Your marginal tax rate may differ.*

Diversification

This is one of the tools of learning to “pay yourself first”. All money exists in some form, whether it be cash in the bank, financial securities like stocks & bonds, money market accounts, the equity in your primary residence, your collection of rare designer hand bags & limited edition sneakers, rare antique coin collection, your cryptocurrency portfolio, and so on. All of these are “assets”. Asset, like fashion, have their good times and bad. One asset (or fashion style) is “in-season” and then the next year “out of season” being replaced by a new hot trend. (Note: financial “professionals” telling you about which assets to buy or sell are really just fashion consultants and should be viewed as such.)

In your 401(k), you can invest in securities: stocks, bonds, or funds (a curated selection of stocks & bonds). Diversification first involves knowing yourself...“If you don’t know who you are, the stock market is an expensive place to find out”. Some tools to help with that are:

- Time Horizon: when will you need the money you are putting into this asset?
- Risk Tolerance: What level of external pressure is emotionally too uncomfortable to *LET IT BE?*
- Generally, the longer your time horizon, the more risk you can take, IF you are able to convince yourself things will work out in the long run based on historical averages. It’s funny how being “reasonable” & “rational” exist in relation with one another.

With our Core Fund Menu, this is the level of RISK (i.e. amount of possible change) are ranked:

- High Risk (most variability): Small, Mid, EM (i.e. Emerging Markets), Commodity
- Moderate Risk: Large, Int’l (not Emerging Markets), Real Estate
- Lowest Risk: Bonds, TIPS, Money Market

The default selection is the Target Date fund associated with your estimated retirement age of 65. **If you do not select anything, you will be placed into the target date fund closest to your retirement age of 65.** This is an excellent choice for most people.