

01/11/12

By Susan Carr-Templeton /

Five 401(k) Plan Investing Rules to Use Now



Here are five important rules that I use to implement my 401(k) plan investment choices:

1. Allocate your fixed income and other highly taxable investments to your 401(k) plan. Other highly taxable assets include real estate investment trusts (or REITs), whose dividends are taxed as ordinary income, and commodity funds. Nearly any fund with high turnover of holdings should be in your retirement plan account. If your fixed income investments are in your taxable account, then you are most likely paying taxes on the income at your full tax rate.
2. Place your stock portfolio with lower turnover in your taxable brokerage account. The federal government taxes stocks' dividends at a low 0.25 percent rate and capital gains on stocks held for one year at 25 percent.
3. All things being equal, choose low-cost exchange-traded funds (ETFs) in your 401(k) plan. Mutual funds offered in company retirement plans generally have high fees and often charge higher fees than you would pay if you bought the funds directly. Most mutual funds do not have the returns to justify their high expenses. The high fees embedded in the funds help pay the company or administrator for their efforts at your expense.
4. Maximize your 401(k) plan contribution so you can reap the benefits of a company match. It is a company benefit, and you need to take advantage of it.
5. Keep short-term safe investments in your taxable brokerage account. Most 401(k) plans include a default investment, which is a low-yielding safe vehicle along the lines of a money market fund. Your 401(k) plan should be for long-term investments.

Tagged as: 401(k) plan, REIT, exchange-traded fund, ETF, investing, investments, taxes, stocks, Hinsdale, Oak Brook, DuPage, fee-based, wealth manager and financial planning

Share:       



Susan Carr-Templeton is an Oak Brook-based financial planner and wealth manager with more than 20 years of investing experience. With a fee-based model, she also works with clients in DuPage and Hinsdale, Illinois. In addition to managing Stafford Wells Advisors, Ms. Carr-Templeton volunteers on the investment committee for the Advocate Foundation. She offers personal finance on investing, saving, retirement and more in “Making the Most of Your Money.” Learn more about Ms. Carr-Templeton at www.staffordwellsadvisors.com.