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CAPITAL MANAGEMENT

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Greetings!

Our newsletter this month is titled "Company stock in your 401(k)? What Retirement Investors Need to Know."

Thank you for your thoughts and feedback on our newsletters. If you know someone who may benefit from this information, please pass it on. If you have any questions or comments, please contact us.

Regards,

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Company stock in your 401(k)? What Retirement Investors Need to Know

Owning company stock in your employer-sponsored retirement plan is not necessarily a bad thing. Company stock can potentially help employees profit from a company's success and even provide tax benefits. But holding company stock can present unique risks, particularly if the stock allocation represents a large percentage of your total retirement plan assets.

Let's consider the case of Enron which, although occurring long ago, still raises some valid points. Enron filed for bankruptcy late in 2001 after struggling for months with mounting losses and debts--as well as questions about its accounting practices. At the time, it was the largest corporate bankruptcy in U.S. history. Because more than half of the assets in Enron's retirement plan were invested in the firm's stock, the result was devastating. As the share price sank, so did the balance in many employees' retirement plan accounts. An estimated $1 billion was lost among about 15,000 accounts.

Additionally, the collapse of companies like Lehman Brothers in 2008 caught the attention of millions of American workers who have company stock in their retirement plan accounts. With their own futures in mind, they have started asking some important questions.

What Can I Do?

Following are some steps each of us can take to evaluate our own situation.

Know your plan--Brush up on the rules that govern your employer-sponsored retirement plan. Is company stock an investment option? Does your employer make matching contributions in the form of company stock? Are there rules governing management of the stock within your account? You can request a Summary Plan Description, which details the rules. Ask your employer to clarify any rules you don't understand.

Consider your share of company stock--If you do own company stock through your employer-sponsored retirement plan, what percentage of your total assets does it represent? The ideal allocation for you will depend on your goals, time horizon and risk tolerance, factors you may want to review with a financial professional.

Review your overall investment strategy--Take a look at your strategy for investing through your company plan. How much do you contribute and what investment options are you using? If your employer already matches your contributions with company stock, you may not want to invest additional money in it.

You also might want to consider investments with holdings that differ from your company's stock--a strategy called diversification.1 If your company stock is a growth stock, for example, you might want to think about a fund that invests in value stocks. Or if your company is a retail company, you might want to look for funds that invest in other industries and sectors that may perform differently. The benefit of diversifying is that if one investment declines in value, others can potentially increase in value and help offset potential losses.

Consider your other investments. Do you invest in an individual retirement account (IRA) or other retirement savings account? Does your spouse have a retirement plan of his or her own? It's important to look at the investments in those vehicles and determine whether they complement your plan investments. If you can't control the level of diversification in your own plan as much as you'd like, you may be able to enhance your level of diversification elsewhere.

Evaluate your options

While Enron and other company collapses have raised valid questions about owning company stock, you may still want to consider taking advantage of your plan. A matching contribution of company stock may be better than no matching contribution at all. Conduct a comprehensive review of your plan assets, your investment strategy and your investments outside of your plan. And given the important role these assets are likely to play in your financial future, be sure to consult a professional before taking action.

[1]There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.Amounts in mutual funds are subject to fluctuations in value and market risk. Shares, when redeemed, may be worth more or less than their original cost.