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Protect your nest egg: Rebalance your 401(k);
An out-of-whack balance is a 'huge risk,' especially for Baby Boomers

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A roaring stock market is generally positive for investors, but Wall Street's robust performance may actually be having an adverse effect on some Americans' 401(k)s.

A second-quarter analysis by Fidelity Investments of its 13 million 401(k) accounts found that 27% of account holders in their mid- to late-50s had a stock allocation that was 10% higher than what's recommended.

Another 10% of those in that age group, along with 11% of account holders 50 to 54, had a 401(k) that was completely invested in stocks. If the market takes a plunge, that's a potentially perilous scenario for those on the cusp of retirement.

"That's concerning, especially at that age," says Jeanne Thompson, vice president at Fidelity Investments. "You want to make sure you have a little more balance, that you hold a little bit in bonds (and cash) ... so you don't lose your whole nest egg, or much of it, in one swoop."
John Scherer, a certified financial planner based in Middleton, Wis., agrees an out-of-whack balance is a serious concern.

"It's a huge risk," he says. During the depths of the recession, for instance, a portfolio divided 80%/20% between stock and bond index funds, experiencing its worst one-year return in five decades, suffered a 40% plunge. That's compared with the 20% dip for a portfolio that had a stock to bond index funds ratio of 40%/60%.

"Rebalancing consistently to a planned allocation is the single biggest thing people can do to avoid getting burned by a market drop," Scherer says. "Following a disciplined rebalancing plan means consistently selling high and buying low, and while it means you never make a killing, you also never get killed."

In July, Thompson says Fidelity emailed roughly 6 million account holders of all ages, informing them about whether their 401(k) distribution was meeting their goals or needed adjustment. Of the 50,000 who responded, more than half rebalanced their allocations, she says.

Many account holders need to be reminded to check their 401(k) ratios. For some, "it comes automatically out of their paycheck," Thompson says, "so it may be out of sight, out of mind." And for Millennials and Gen Xers, retirement is not always a financial priority. "Retirement seems so far away," she says. While account holders should not engage in day trading with their

401(k) assets because "you want to invest for the long term, with an eye on growth," Thompson says "we do recommend at least once a year, go in and check your asset allocation and savings rate to make sure they're on track with your goals."

One way to stay on top of your account's allocation is to invest in target-date funds, which are based on your age and the year you want to retire. They reduce your stock exposure and increase your investment in bonds over time. "Rather than you having to manage that," Thompson says, "the portfolio manager manages that for you."

Or, if your plan offers an auto rebalance feature, you might consider it to keep your account ratios in check.

"Many 401(k) record keepers provide participants with the option of auto rebalance," Daniel Lash, a certified financial planner based in Vienna, Va., said in an email. "So if you had a 70% equity and 30% bond allocation and due to market performance it has become 80/20, then the auto rebalance will automatically bring those participants back to 70/30."

Of course, during a bull market, there are Baby Boomers who may relish increased stock exposure in their 401(k)s. And with many Americans living longer, extending the amount of time they are likely to spend in retirement, a good stock portfolio may be essential, some planners say.

"There is a greater than 50% probability that at least one spouse of a Baby Boomer couple lives into their 90s," says Austin Frye, a certified financial planner based in Aventura, Fla. "Therefore, with increasing life expectancies, the Baby Boomer equity risk is much less than those of previous generations."

And strong stock returns can better contend with inflation. "Without risk, you cannot get returns," Frye says, "so if you take a calculated risk, by weaving in more equities ... you're taking care of the inflation problem."

Ultimately, a 401(k) should be only one piece of your financial plan.

"By the time you retire, it's the value of the whole portfolio that matters," San Francisco-based certified financial planner Steve Branton said in an email, "not just any one account."

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