the EDUCATED INVESTOR
POINCIANA ADVISORS GROUP, LLC
FEATURE ARTICLE

Current Market Conditions and Your 401(k) Retirement Plan
Frequently Asked Questions

What will happen to my retirement plan assets if my employer, plan provider, custodian or recordkeeper is in financial trouble?

Your assets should remain protected even in the face of such a failure. Federal law requires that assets held by a provider, custodian or recordkeeper are protected from the claims of creditors. Also, strict ERISA laws mandate that all retirement assets be held in a separate trust account segregated from the provider's assets.

Are the assets in my retirement account insured?

Retirement plan assets do enjoy some protections. Plan assets are protected from dishonest acts (such as fraud by plan fiduciaries) via federally mandated fidelity bonds that are similar to insurance. In addition, as touched on above, your assets should be protected if your employer goes bankrupt.

However, it is important to recognize that when you participate in a retirement plan, you are **investing** in a trust account, not **saving** in a savings account, with important differences regarding protection:

- **Saving** — When you save money in a savings account such as a passbook, CD or similar vehicle, the account is insured by the FDIC up to stated limits (reference www.fdic.gov for current details). Thus, while you are highly unlikely to lose deposits in a savings account, neither will your deposits ever increase much in value. Even savings accounts that pay interest cannot be expected to keep pace with inflation over time.
- **Investing** — In contrast, when you invest money in the market, if the market goes up or down, so too will your investments. So, while you can lose money in an investment account, if you ride out the rough times, you can expect the value of your assets to outpace inflation over time.

Diversifying your portfolio (investing in a variety of asset classes instead of in one or a few) and taking on only the amount of market risk you can personally tolerate are two important ways to help manage your investment risk-reward ratio in a way that makes the most sense for you.

Should I wait until the crisis is over to contribute?

In general, we encourage continued contributions toward retirement, regardless of the market climate. Studies have demonstrated that the long-term growth of your retirement account is directly

related to the length of time that you are participating, so the longer you wait to begin contributing, the more it is likely to cost you in the long run.

In contrast, what if you stop contributing or you don't even start? Waiting for the storm to pass may feel like the right thing to do, but you may be cheating yourself in at least a couple of ways:

- A bear market means prices are generally down, so it can actually be among the best times to invest. You can think of it as a chance to buy investments while they are on sale.
- There is no guarantee that markets will recover from a severe downturn, but there is overwhelming historical evidence that eventually they will. The evidence also indicates that some of the biggest market gains tend to occur just after a bear market ends. Unfortunately, there is no way to predict that moment in time. If you wait until the recovery is obvious before you renew or begin investing, you will already have missed out on the gains from the rebound. We are reminded of the adage: slow and steady wins the race.

Should I reallocate my assets to something less aggressive than what I am currently in?

When you save for retirement, you are saving for the long run. Over time, you should expect cycles of volatility, sometimes even long and severe. Abandoning your investment plan during these cycles can be expensive and damaging. If your ability, willingness or need to accept market risk has truly changed — independent of current market events — then it may be prudent to reallocate your portfolio accordingly. Otherwise, we advise you to ignore market noise, stick to your existing strategy and remain on course to achieve your long-term financial goals.

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