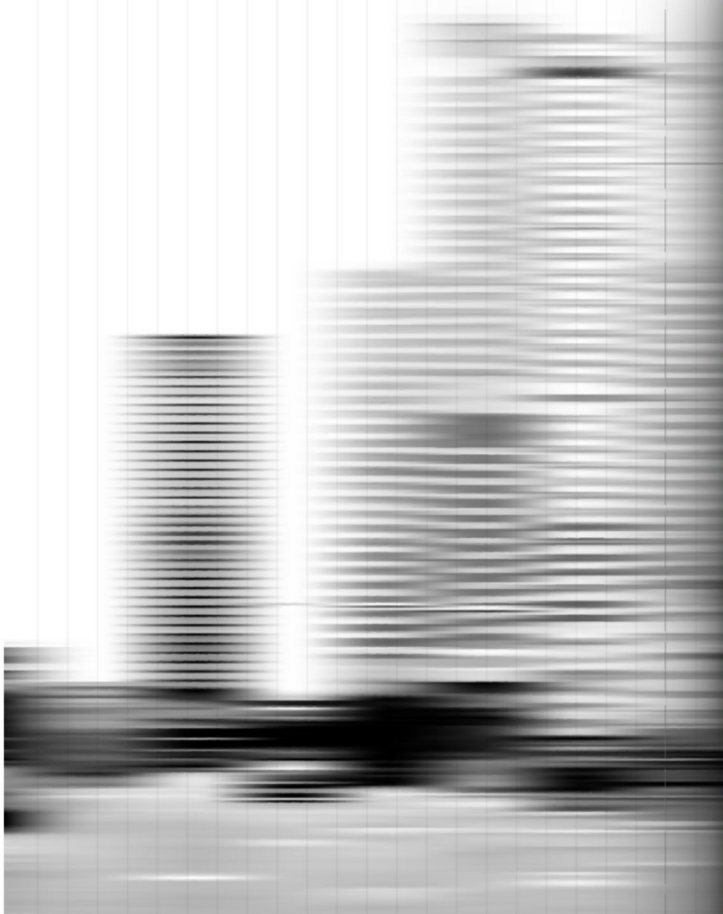
SPECIAL REPORT

How to Become a 401(k) Millionaire

by Rick Keast



11 Lessons You Can Get Started on Right Now!

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Introduction

At the end of 2022, employer-sponsored defined contribution (DC) plans, which include 401(k) plans, 403(b) plans, 457 plans, the Federal Thrift Savings Plan (TSP), and other private-sector plans, held an estimated $9.3 trillion in assets. With $6.6 trillion in assets at year-end 2022, 401(k) plans held the largest share of employer-sponsored DC plan assets. 403(b) plans, which are similar to 401(k) plans and are offered by some education and nonprofit organizations, held another $1.1 trillion in assets[1].

With 91% of 401(k) plan participants in plans offering employer contributions, 401(k) plans are a powerful saving tool (see the chart below). There is no question that payroll deduction makes it easier for employees to save and that the tax treatment is a big incentive to contribute. The typical 401(k) plan offers an assortment of investment options and typically include domestic equity funds, international equity funds, domestic bond funds, and target date funds[1].

401(k) Plans Offer Powerful and Convenient Saving and Investing

401(k) plans:	» 60 million active participants
	» $6.6 trillion in assets at year-end 2022
	  » 62 percent of 401(k) plan assets invested in mutual funds
	» 28 investment options, on average
	  » Typically including domestic equity funds, international equity funds, domestic bond funds, and target date funds[1]

401(k) participants:	» 91 percent are offered employer contributions » 94 percent have investments in equities[2] » 59 percent have invested in target date funds[1] » 84 percent have access to plan loans
DC-owning individuals:	» 91 percent agree that payroll deduction makes it easier for them to save » 85 percent agree that the tax treatment of their retirement plan is a big incentive to contribute » 85 percent agree that their employer-sponsored retirement plan offers them a good lineup of investment options

[1] Funds include mutual funds, collective investment trusts, separate accounts, and other pooled investment products.

[2] Equities include equity funds, company stock, and the equity portion of balanced funds. The Investment Company Institute classifies balanced funds as *hybrid* in its data.

Sources: Investment Company Institute, The US Retirement Market (**www.ici.org/research/stats/retirement**); The BrightScope/ICI Defined Contribution Plan Profile (**www.ici.org/research/retirement/dc-plan-profile**); EBRI/ICI 401(k) Database (**www.ici.org/research/retirement/ebri-ici-401k**); US Household Views on Retirement Savings (**www.ici.org/research/retirement/us-views**)

This book is written primarily for 401(k) plans, but it also applies to 403(b) and 457 plans.

So many 401(k) millionaires.

As we have described above, one of the most common investment vehicles that Americans use to save for retirement is a 401(k) plan. To help maximize your retirement dollars, the 401(k) plan is an employer-sponsored plan that allows you to save for retirement in a tax-sheltered way. You can contribute up to $22,500 in 2023. If your employer offers a 401(k) plan and you are not utilizing it, you may be leaving money on the table, especially if your employer matches your contributions.

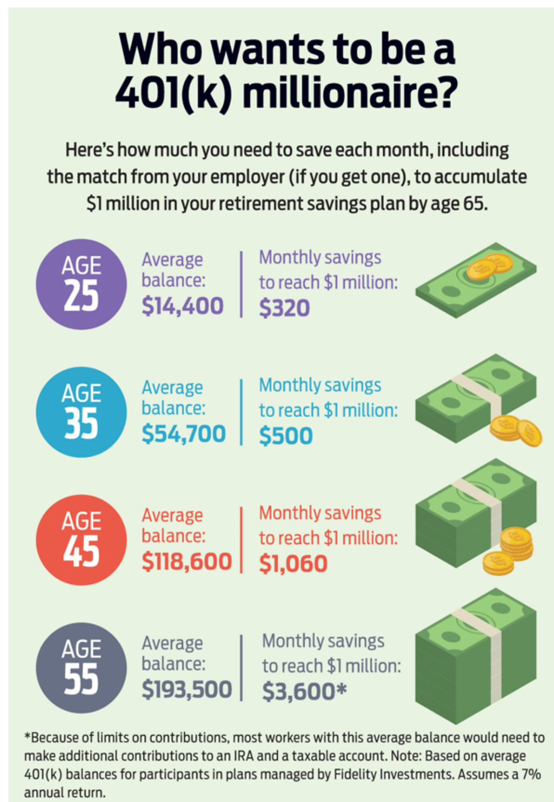
While the 401(k) plan is one of the best available retirement saving options for many people, only 60 million Americans contribute to one[2]. That is staggering given the number of employees who have access to employer-sponsored plans is 68% of employed Americans[3].

Despite the recent turbulence in the stock market, workers are still plowing money into their retirement accounts. But the number of 401(k) millionaires has dropped significantly because of the market downturn in 2022. Fidelity Investments, one of the largest managers of workplace plans, said it had 299,000 401(k) millionaires at the end of 2022, a 32% drop from 442,000 a year earlier. The fourth-quarter analysis also showed far fewer individual retirement account (IRA) millionaires, which fell 25% to 280,320[4].

Although fewer people held onto millionaire status year over year, there was a 15% bump in 401(k) millionaires in the fourth quarter compared with the preceding three-month period.

So, what do you have to do to become a 401(k) millionaire? The chart to the right shows how much you need to save each month, including the match from your employer, to accumulate $1 million in your retirement savings by age 65.

The success of so many 401(k) investors should tell the American public that these are smart people to be emulated, however, many workers saving for retirement in a 401(k) plan do not take full advantage of maximizing their savings for retirement.



Source: Fidelity.

This guide to becoming a millionaire includes the important things you must do and the pitfalls you must avoid. By following this guide, you will be on the right path to not only having a better financial outcome in retirement, but possibly becoming a 401(k) millionaire.

This guide will show you how to join this group of millionaires!

Lesson #1: Determine a path to maximize the employer match

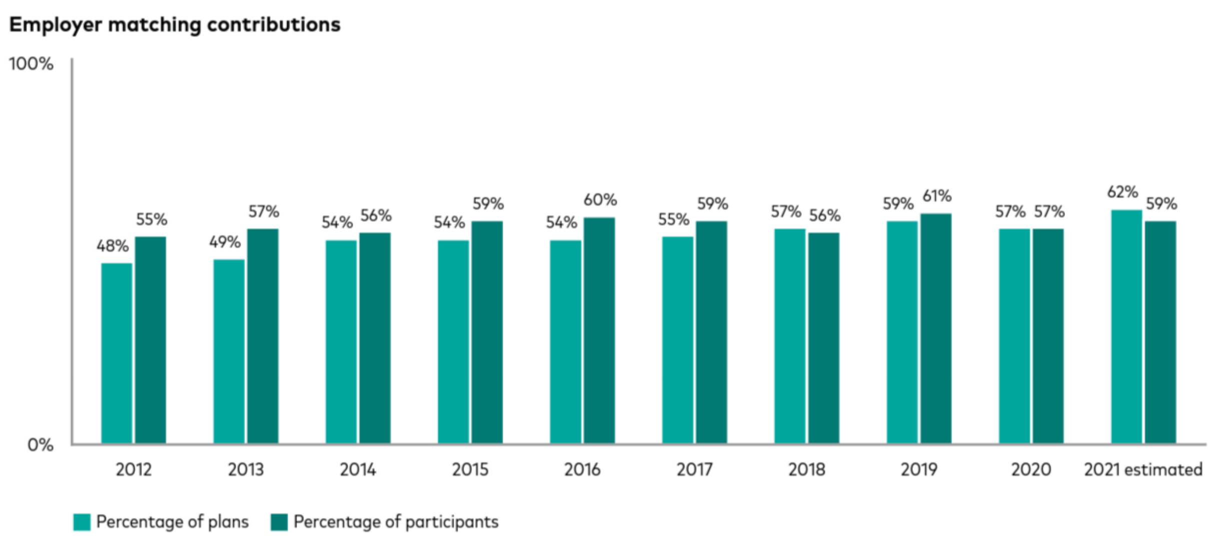
If you want to become a 401(k) millionaire, you must max out the employer match offered in your retirement plan. It is usually the first "savings" step after paying down high-interest debt and keeping up with your bills.

So, let's look at different plan designs that make up the 401(k) landscape that can influence participation and how much an employee defers into the plan. According to a recent survey by Vanguard, 9 in 10 Vanguard-administered 401(k) plans permitted pre-tax elective deferrals by eligible employees in 2021. 401(k) plans with employee-elective deferrals can be grouped into four categories based on the type of employer contributions made to the plan[5]:

1. Plans with matching contributions.
2. Plans with nonmatching employer contributions.
3. Plans with both matching and nonmatching contributions.
4. Plans with no employer contributions.

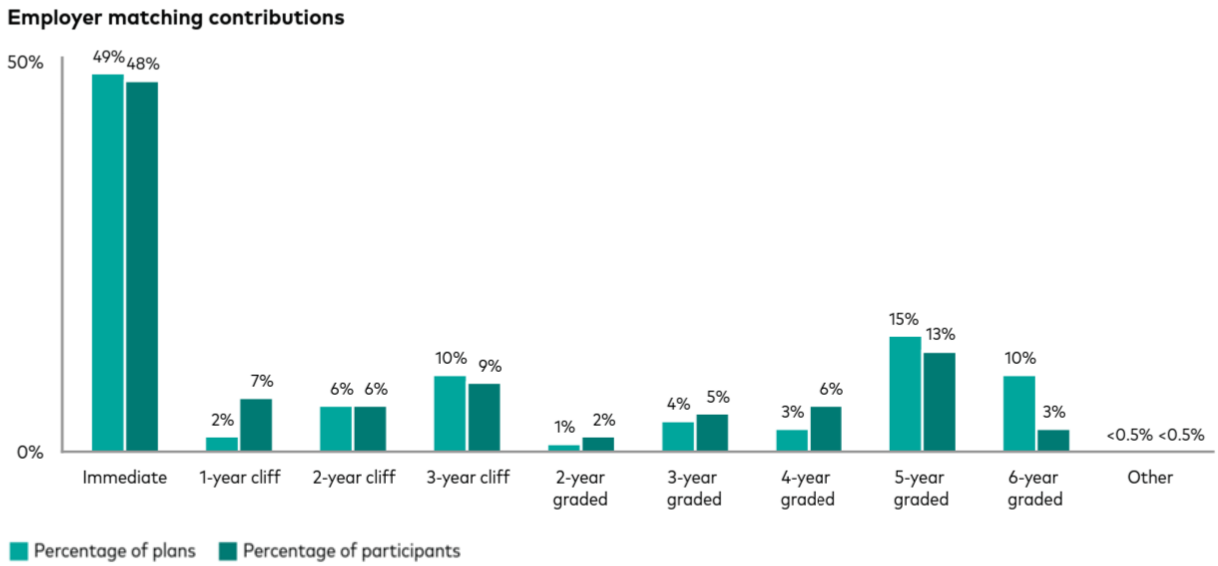
Both the type and size of employer contributions vary substantially across plans. Eligibility In 2021, nearly 3 in 4 Vanguard plans allowed employees to make voluntary contributions immediately after they joined their employer. Larger plans were more likely than smaller plans to offer immediate eligibility. As a result, nearly 8 in 10 employees qualified for immediate eligibility, which will allow you to start contributing right away and not have to delay savings.

The chart below shows that 62% of the 401(k) plans had an employer matching contribution and 59% of participants were in such a plan.



Source: Vanguard 2022.

Vesting also plays a significant role in increasing your 401(k)-account balance. Vesting is the amount of time you must work to earn 100% of the employer matching contribution. According to Vanguard, in 2021, nearly half of plans immediately vested participants in employer matching contributions, and 48% of participants were enrolled in these plans. One in 4 plans with employer matching contributions used a 5-year or 6-year graded vesting schedule, and 1 in 6 participants with employer matching contributions were in such a plan (see the chart below).



Source: Vanguard 2022.

The wide variation in employer contributions is most evident in the design of employer matching formulas. In 2021, Vanguard administered more than 170 distinct match formulas for 401(k) plans offering an employer match. Among those plans, 71% (covering 62% of participants) provided a single-tier match formula, such as $0.50 per dollar on the first 6% of pay (see the chart below).

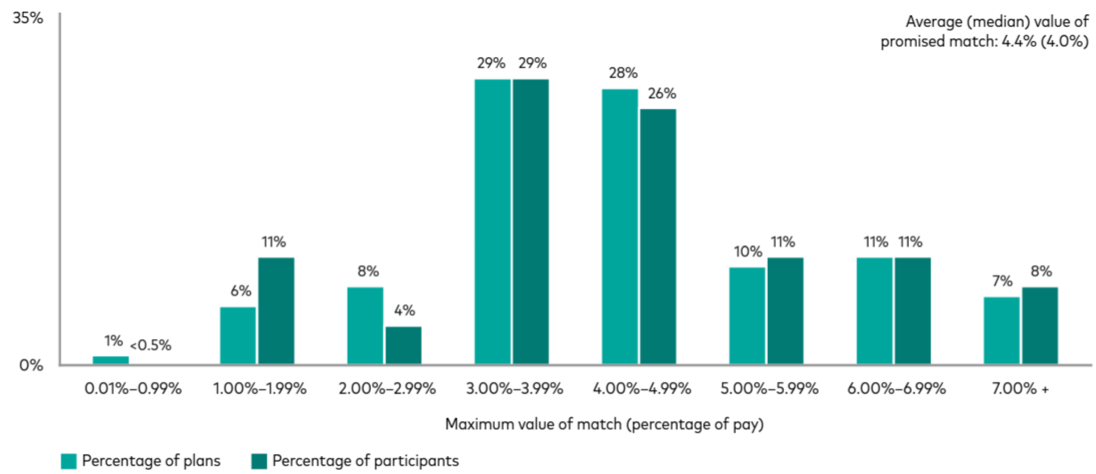
The matching formula most cited as a typical employer match is $0.50 per dollar on the first 6% of pay, which is the match most frequently offered by Vanguard DC plans. Among plans offering a match, about 71% of the plans utilized this match formula in 2021. Less common, used by 22% of plans, were multitier match formulas, such as $1.00 per dollar on the first 3% of pay and $0.50 per dollar on the next 2% of pay. Another 5% of plans had a single or multitier formula but imposed a maximum dollar cap on the employer contribution, such as $2,000. Finally, an exceedingly small percentage of plans used a match formula that varied by age, tenure, or similar variables.

Match type	Example	Percentage of plans	Percentage of participants
Single-tier formula	$0.50 per dollar on 6% of pay	71%	62%
Multitier formula	$1.00 per dollar on first 3% of pay; $0.50 per dollar on next 2% of pay	22	27
Dollar cap	Single- or multitier formula with $2,000 maximum	5	9
Other	Variable formulas based on age, tenure, or similar variables	2	2

Source: Vanguard, 2022.

Given the many different match formulas, one way to summarize matching contributions is to calculate the maximum value of the match promised by the employer. For example, a match of \$0.50 per dollar on the first 6% of pay promises the same matching contribution, 3% of pay, as a formula of \$1.00 per dollar on the first 3% of pay. The promised value of matching contributions varied substantially from plan to plan in 2021. Among plans with single or multitier match formulas, most promised a match of between 3.0% and 6.0% of pay (see the chart below). The average value of the promised match was 4.4% of pay.

Vanguard defined contribution plans permitting employee-elective deferrals with a single- or multitier match formula



Source: Vanguard 2022.

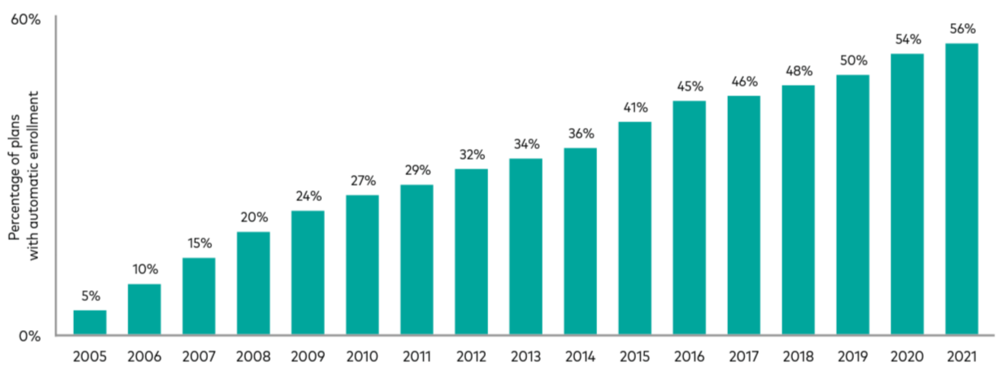
So now that we have summarized the employer matching formulas typically found in most retirement plans, let us now look at how many participants are contributing an amount to maximize the matching contribution.

Historically, employees in a 401(k) plan have had to make an active choice to join the plan, but this trend is shifting. In the past, employees had to act to join the plan and behavioral finance experts discovered that too many employees failed to take advantage of their employer's 401(k) plan because:

- Lack of planning skills. Some employees are not active, motivated decision-makers when planning for retirement. They lack the planning skills and find it difficult to defer gratification.
- Default decisions. Faced with a complex choice and unsure what to do, many individuals often take the default or "no decision" choice. In the case of a voluntary saving plan, which requires that a participant take action to sign up, the "no decision" choice is a decision to not contribute to the plan.
- Inertia and procrastination. Many individuals deal with a difficult choice by deferring it to another day. Eligible nonparticipants, unsure what to do, postpone their decision. While many employees know they are not saving enough and express an interest in saving more, they simply never get around to joining the plan or to increasing their contribution rates over time if they do join.

To increase savings rates among participants, automatic enrollment or autopilot plan designs started to take hold around ten years ago. With an autopilot design, individuals are automatically enrolled into the plan, their deferral rates are automatically increased each year, and their contributions are automatically invested in a balanced investment strategy. Under an autopilot plan, the decision to save is framed negatively: "Opt out of the plan if you'd like." In such a design, "doing nothing" leads to participation in the plan and investment of assets in a long-term retirement portfolio. As of year-end 2021, 56% of Vanguard plans permitted automatic enrollment of employee-elective contributions (see the chart below). Plan adoption of automatic enrollment has been consistently increasing over the past 15 years.

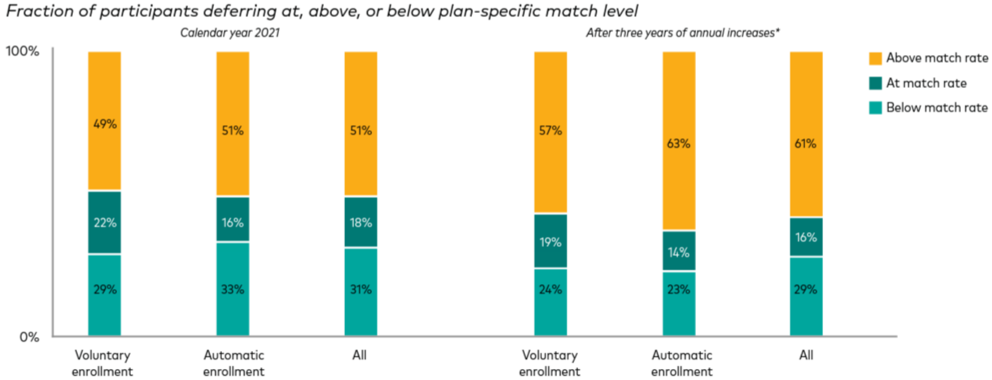
Vanguard defined contribution plans with employee elective contributions



Source: Vanguard 2022.

According to Vanguard, in 2021, two-thirds of participants received the full employer matching contribution (see the chart below). Participants in automatic enrollment designs were slightly less likely to receive the full employer match than were participants subjected to voluntary enrollment. However, after three years of automatic annual increases, participants in automatic enrollment designs are more likely to be saving above the full employer match, and more than three-quarters of all participants will be receiving the full employer match, with 7 in 10 contributing at levels equal to or above the employer match.

Fraction of participants deferring at, above, or below plan-specific match level

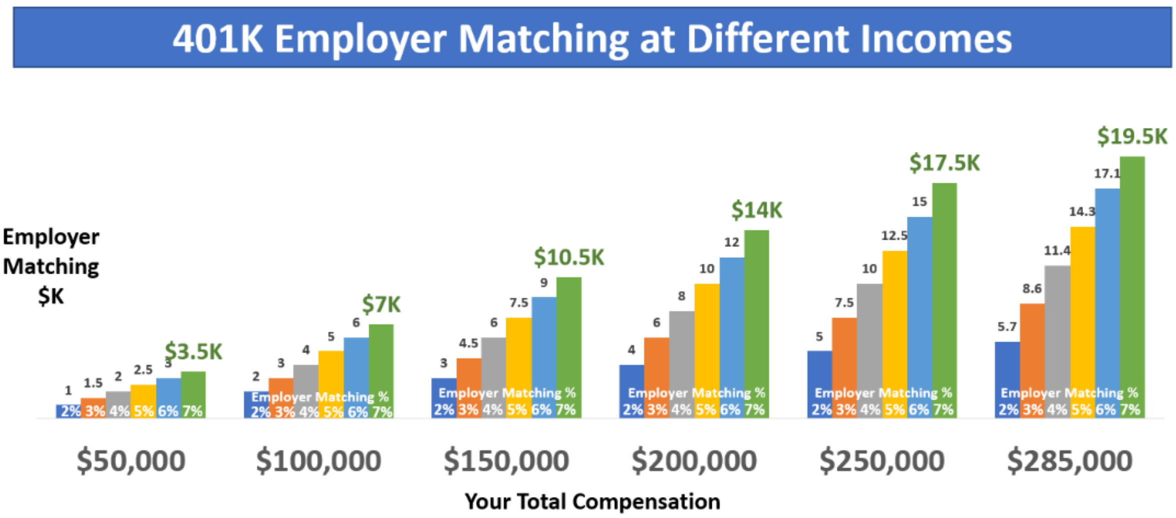


* For participants in plans with automatic enrollment designs, annual increases are assumed only for those plans where feature is offered and the participant has not opted out of the feature. For participants in voluntary enrollment designs, annual increases are assumed only for participants who have elected the option. The three-year projection assumes participants enrolled in annual increases do not opt out.

Source: Vanguard 2022.

If you can't start at the maximum contribution rate to receive the full employer match, the most important thing is that you begin contributing to the plan right now. If your 401(k) plan doesn't have an auto pilot feature, a wonderful way to ease into the maximum contribution rate is to start contributing at 1% and then increase your contribution rate by 1% every year or when you receive a cost-of-living-adjustment (COLA) or merit raise. This will allow you to increase your contributions without feeling a loss of income.

The chart below shows the employer matching contributions based on compensation and matching percentages.



Source: www.soothsawyer.com.

Maximize the employer matching dollars so you can be a 401(k) millionaire.

Lesson #2: Avoid investing 100% of your account in the stable value fund.

Many 401(k) participants like stable value funds because they are the safest investment available in the plan. A stable value fund is a low-risk investment (like a money market fund) that delivers higher yields (like a bond fund). It can do this because it holds a short-term bond fund as well as an added insurance feature to protect investors from losing any of their principal.

While high-quality short-term bond funds are low-risk investments that are much less volatile than stocks, there is still no guarantee that the value of a bond fund will not decline when interest rates rise. That's where the "stable" part of stable value comes into play.

The stable part of stable value funds refers to how the funds eliminate the chance of ever seeing a negative return. The insurance features they add to the underlying portfolio of bonds effectively removes the risk that if interest rates rise your stable value fund investment will lose money[6].

There are two components to a stable value fund: bonds and insurance contracts.

1. Stable value funds typically invest in short-term U.S. government bonds and high-quality corporate bonds. The duration for stable value funds is typically averages around three years. In general, the longer a fund's duration, the more sensitive it is to interest rate moves. In comparison, if your 401(k) plan offers a total market bond fund, which most do, its duration is likely around six years, leaving it more susceptible to interest rate changes.
2. In addition to bonds, a stable value fund also invests in insurance contracts that are issued by insurance companies or banks. Like all insurance, the purpose is to provide protection. For stable value funds the insurance is designed to make sure that no matter what is going on with interest rates, the value of the fund will not fall.

It is the insurance feature that enables stable value funds to deliver the higher yields of short-term bonds with the same minimal risk of a money market mutual fund. Many stable value funds spread their insurance contracts among multiple insurers or banks to add an important layer of risk diversification. That way if one insurer defaults or is unable to meet its obligations, the fund overall will not lose much, if any, money.

Key benefits of using a stable value in your 401(k) plan.

1. They are conservative investments that provide steady income with negligible risk as your principal is guaranteed.
2. However, less risk also means lower returns.
3. Stable value funds are an excellent choice for conservative investors, workers nearing retirement, and anyone looking to stabilize their portfolio during times of market volatility.

Disadvantages of using a stable value fund in your 401(k) plan.

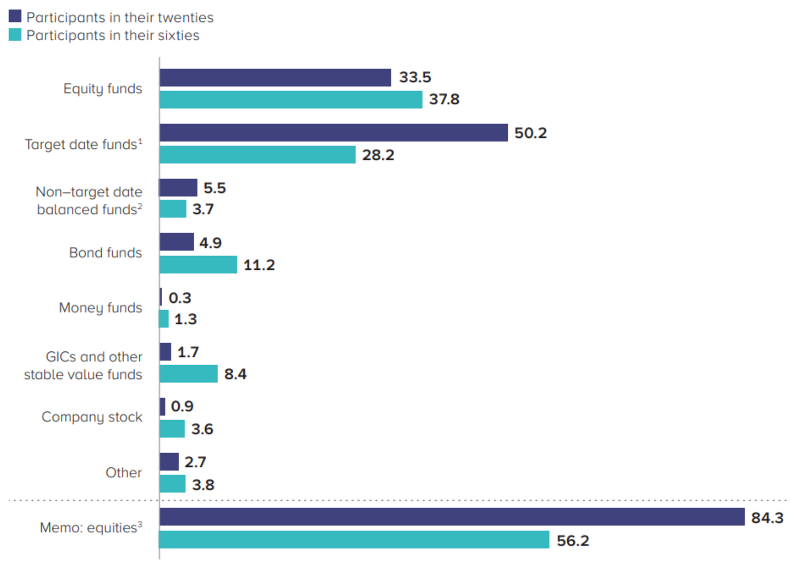
- They charge fees that cover the cost of the insurance wrappers, which can be as high as 1% per year in some cases. This fee reduces the returns of the fund.

- Most stable value funds prevent investors from moving their money directly into a similar investment, such as a money market or a short-term bond fund. Participants must instead move their funds into another vehicle, such as a stock or sector fund, for 90 days before they can reallocate them to a cash alternative.

As you can see in the chart below, stable value funds are used by 8.4% of participants once they reach age 60 and are closer to retirement.

Average 401(k) Asset Allocation Varies with Participant Age

Percentage of account balances, year-end 2020



[1] A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.

[2] The Investment Company Institute classifies balanced funds as *hybrid* in its data.

[3] Equities include equity funds, company stock, and the equity portion of balanced funds.

Note: Funds include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated. Percentages are dollar-weighted averages.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project. See *ICI Research Perspective*, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2020."

Most people considering an investment in the stable value fund prefer to have their 401(k) account completely protected from loss. However, they are placing a higher priority on the stability and preservation of their money than on the opportunity to potentially achieve greater long-term growth in their account. While the stable value fund will post consistent gains over time, it may be losing value if it does not at least keep pace with the rate of inflation. For example, if the stable value fund returns 3% before inflation in an environment of 5% inflation, it will produce a negative return (−2%) when adjusted for inflation.

If you invest solely in the stable value fund, your 401(k) account balance will be protected from losses. However, the lower returns will prevent you from becoming a 401(k) millionaire (see the diagram below).

Stable Value Example - Starting at age 25 and retiring at age 65:

- Age when joining the plan: 25
- Age at retirement: 65
- Starting annual compensation: $50,000
- Annual % increase in compensation: 2%
- Annual pre-tax contribution: 8%
- Annual employer match: 4%
- Stable value fund average annual performance: 3%

As you can see in the chart to the right, if this participant only invests in the stable value fund, they will have an account balance of $449,726 at retirement.

They will not reach 401(k) millionaire status when they are age 65!

Age	Compensation	Annual Contribution	Employer Match	Total Contribution	Total Account Balance With Stable Value Fund
25	$50,000	$2,000	$2,000	$4,000	$4,060
26	$51,000	$2,040	$2,040	$4,080	$8,323
27	$52,020	$2,081	$2,081	$4,162	$12,797
28	$53,060	$2,122	$2,122	$4,245	$17,489
29	$54,122	$2,165	$2,165	$4,330	$22,408
30	$55,204	$2,208	$2,208	$4,416	$27,563
31	$56,308	$2,252	$2,252	$4,505	$32,962
32	$57,434	$2,297	$2,297	$4,595	$38,615
33	$58,583	$2,343	$2,343	$4,687	$44,530
34	$59,755	$2,390	$2,390	$4,780	$50,718
35	$60,950	$2,438	$2,438	$4,876	$57,189
36	$62,169	$2,487	$2,487	$4,973	$63,953
37	$63,412	$2,536	$2,536	$5,073	$71,020
38	$64,680	$2,587	$2,587	$5,174	$78,403
39	$65,974	$2,639	$2,639	$5,278	$86,112
40	$67,293	$2,692	$2,692	$5,383	$94,160
41	$68,639	$2,746	$2,746	$5,491	$102,558
42	$70,012	$2,800	$2,800	$5,601	$111,320
43	$71,412	$2,856	$2,856	$5,713	$120,458
44	$72,841	$2,914	$2,914	$5,827	$129,987
45	$74,297	$2,972	$2,972	$5,944	$139,919
46	$75,783	$3,031	$3,031	$6,063	$150,270
47	$77,299	$3,092	$3,092	$6,184	$161,055
48	$78,845	$3,154	$3,154	$6,308	$172,289
49	$80,422	$3,217	$3,217	$6,434	$183,988
50	$82,030	$3,281	$3,281	$6,562	$196,168
51	$83,671	$3,347	$3,347	$6,694	$208,847
52	$85,344	$3,414	$3,414	$6,828	$222,043
53	$87,051	$3,482	$3,482	$6,964	$235,773
54	$88,792	$3,552	$3,552	$7,103	$250,056
55	$90,568	$3,623	$3,623	$7,245	$264,912
56	$92,379	$3,695	$3,695	$7,390	$280,360
57	$94,227	$3,769	$3,769	$7,538	$296,422
58	$96,112	$3,844	$3,844	$7,689	$313,119
59	$98,034	$3,921	$3,921	$7,843	$330,473
60	$99,994	$4,000	$4,000	$8,000	$348,507
61	$101,994	$4,080	$4,080	$8,160	$367,244
62	$104,034	$4,161	$4,161	$8,323	$386,709
63	$106,115	$4,245	$4,245	$8,489	$406,927
64	$108,237	$4,329	$4,329	$8,659	$427,923
65	$110,402	$4,416	$4,416	$8,832	$449,726

Source: Redhawk Wealth Advisors, Inc.

In this hypothetical 401(k) account scenario, the participant starts contributing at age 25 through age 65. Their annual compensation starts at $50,000 per year and increases 2% each year thereafter. In this hypothetical scenario, the participant contributes at 4% of compensation starting at age 25 and continues at the same contribution rate through age 65. The employer matching contributions is based on 4% of annual compensation. This hypothetical account scenario incorporates an annualized personal rate of return for the stable value fund of 3%, net of account expenses, for the age range from 25 through age 65 and participant and employer contributions for the year they are contributed have an annualized personal rate of return of 1/2 of the 1.5%. This hypothetical account scenario does not have loans or withdrawals taken from the account. Your own account may earn more or less than this example. This information is intended to be educational and is not tailored to the investment needs of any specific investor.

Limit the amount you invest in the stable value fund so you can be a 401(k) millionaire.

Lesson #3: Skip the easy button of using a target date fund.

Before we get started, what is a target date fund? In its most simplistic form, an investor chooses a target date fund that corresponds to the year when they believe they will retire. For example, a 25-year-old in 2023, for instance, may pick a 2060 target date fund. A target date fund assumes that every investor has the same tolerance for risk and the same retirement goals. In other words, it is a “one-size-fits-all” solution.

The investment companies that manufacture target date funds typically use their own proprietary mutual funds that have an asset allocation that is aligned with the risk tolerance appropriate for the investor’s current age. Because they are using their own proprietary mutual funds means that they may not be the highest quality or best performing funds.

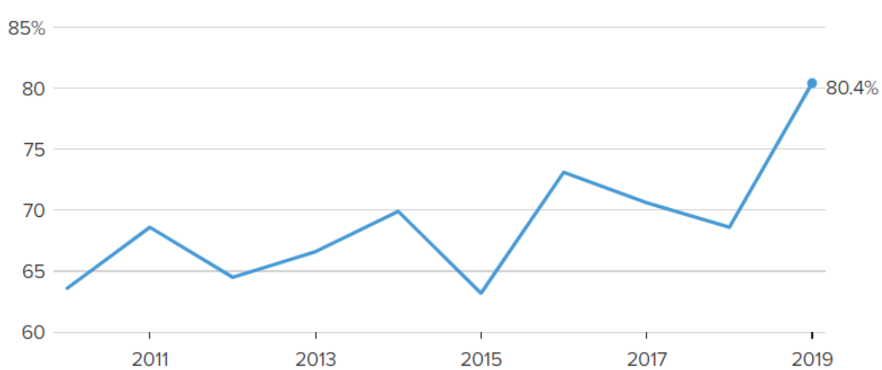
Once an employee selects a target date fund, they are on what is known as a “glide path,” which is a term that describes how the fund’s asset allocation changes over time. As the investor gets older, the target date fund will lower its risk profile by decreasing the equity allocation and increasing the allocation in bond holdings. Enclosed below are general examples of target date fund options. Notice how the funds with a closer target date are invested less in equities and more in bonds:

- 2065 Fund: 90% in equities and 10% in bonds
- 2040 Fund: 85% in equities and 15% in bonds
- 2025 Fund: 50% in equities and 50% in bonds

Target date funds are extremely popular and over 80% of 401(k) plans offered target date funds in 2019 (see the chart below). A major reason for these gains in usage was because in 2007, the Department of Labor allowed retirement plan sponsors to automatically enroll employees into target date funds upon becoming eligible for company benefits.

Availability of target-date funds

The share of 401(k) plans offering a TDF has grown since 2010



Source: Plan Sponsor Council of America's 63rd Annual Survey of Profit Sharing and 401(k) Plans report, which reflects the 2019 plan-year experience of 600 401(k) plans.

Glide-Path

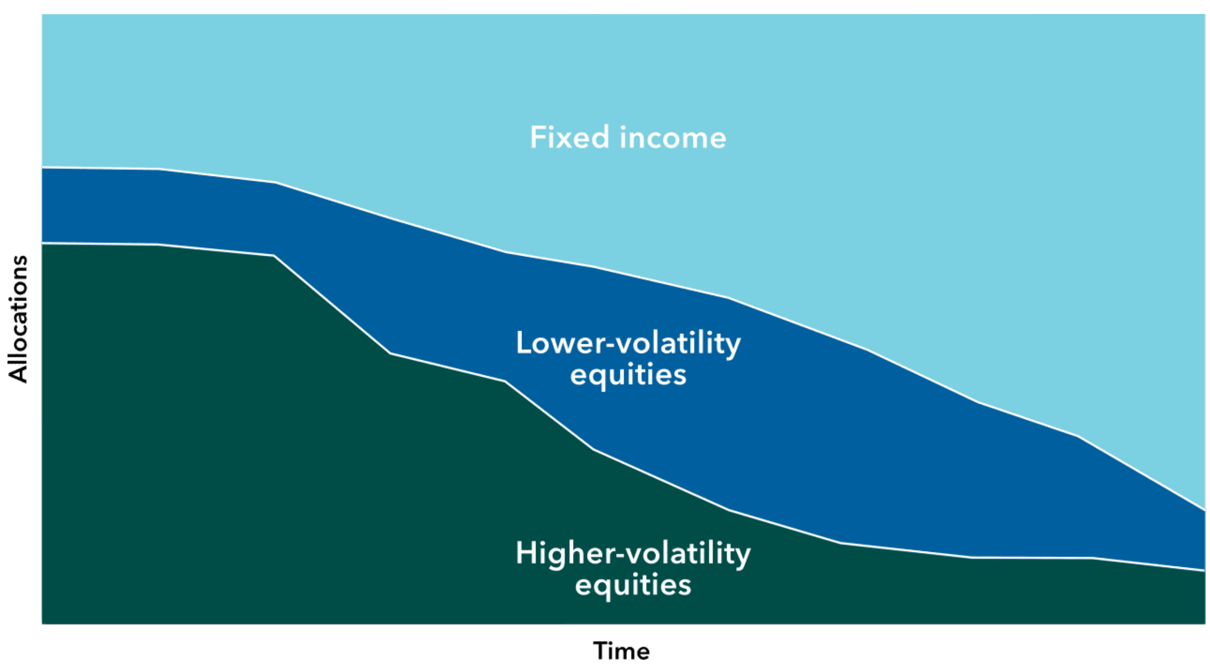
Let's dig into the glide path to see what sets the target date apart as an investment vehicle and what drives its simplicity for participants.

There are two types of glide paths: a "to" glide path, where the fund reaches its most conservative allocation at the year of retirement, and a "through" glide path, where the equity portion of the fund is systematically tapered off over a period of up to 30 years after the retirement date. A "to" glide path more accurately reflects the current reality where most target date participants exit the plan when they retire and roll their target date over into an individual retirement account. However, if a retired participant chooses to remain in the plan's target date fund, the "through" series becomes more applicable since they need equity exposure for their remaining years.

How much equity a target date fund has near the retirement date matters for participants because equity exposure often is the biggest source of volatility in a glide path. But the types of equities matter, too, as not all equities are equally volatile. This brings up some questions:

1. Does the target date shift to historically less volatile equities as investors age?
2. How much of the equity near retirement is in less volatile vs. more volatile types of securities and/or markets? For example, is the equity near retirement growth-oriented or focused more on defensive, dividend-paying equities that have tended to do better when markets decline[7]?

The following chart shows how glide paths may differ depending on the type of equity used on the target date fund.



Source: Capital Group.

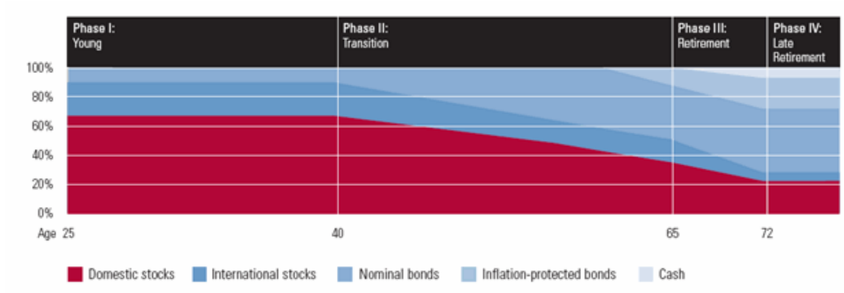
Not all target dates are created equal.

The problem with a one-size-fits-all philosophy is that it never truly fits everyone. Thanks to many employers auto-enrolling employees in a 401(k), target date funds have grown in popularity as a catch-all retirement plan, but the funds and the glide path, including those sharing the same target date, can differ dramatically.

Each target date fund manager has a different philosophy," says Jeff Holt, associate director of manager research for Morningstar Research Services in Chicago[8]. That philosophy manifests itself in the fund's glide path, which is how the mix of equities and bonds becomes increasingly more conservative as the retirement or target date nears. Even though all target date funds become more conservative with time, each fund has its own outlook for how and when to do that. That's why investors should evaluate the glide path of each target date fund.

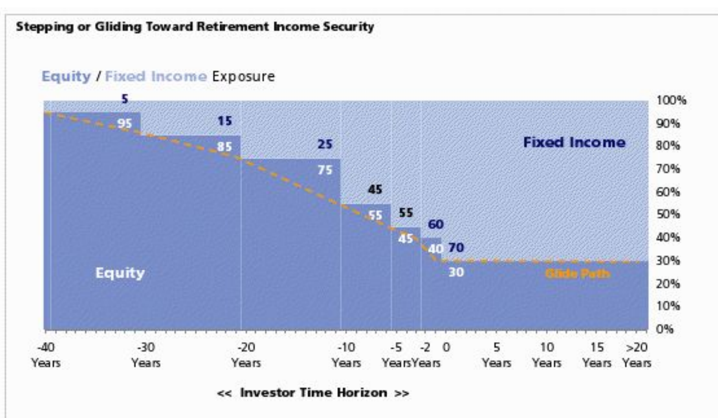
As we've discussed, each fund company that manages target dates have established a glide path and these glide paths vary considerably. In general, however, a fund's glide path will follow one of three methods: straight line, stepped, or rolldown[9].

Straight line: A straight line glide path takes a steady, linear approach that gradually reduces the equity weighting of the portfolio over time. Vanguard and TIAA-CREF take this approach.



Source: Vanguard

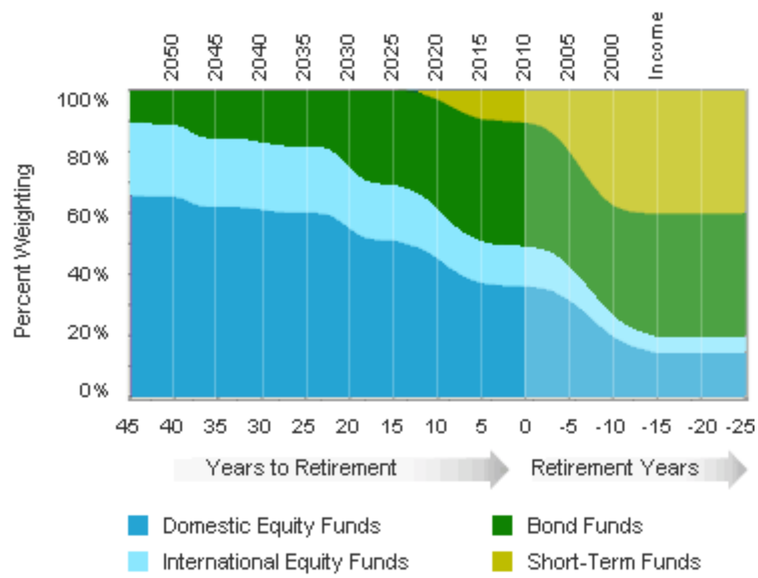
Stepped: With a stepped glide path the equity allocation is held steady until periodically adjusted. ING takes this approach. In their stepped glide path, during the first three decades the adjustment is made every ten years; subsequent adjustments are made in five-year intervals.



Source: ING.

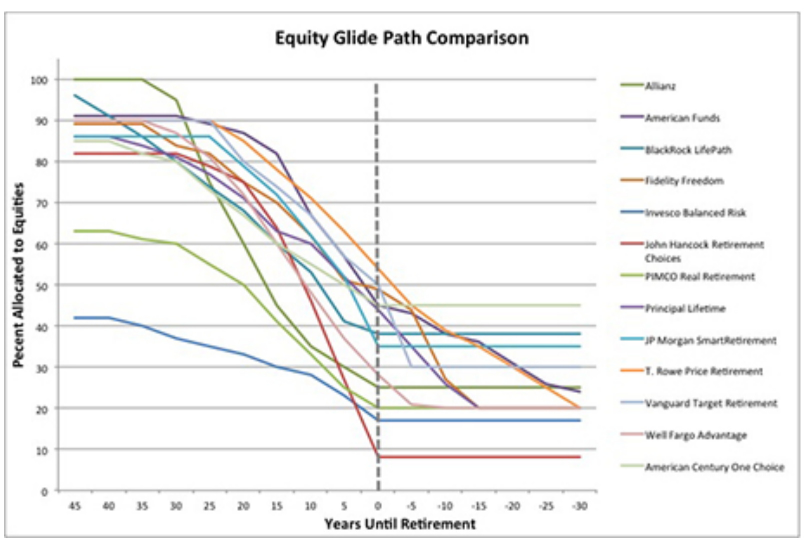
Rolldown: This glide path method holds elevated levels of equity allocations until approximately twenty years before the retirement date, when a sharp reduction in the equity allocation begins, extending through the decumulation stage. Fidelity takes this approach.

Fidelity Freedom Funds Rolldown



Source: Fidelity.

Because each investment company manages the target date glide path differently, the dispersion of equity allocations in the universe of target date funds is quite large (see the chart below)[10]. So, it's particularly important that you understand the glide path of the target date funds available in your retirement plan.



Source: Plan Sponsor.

Bottom line.
As a participant in a 401(k) plan, you can take on more risk when you are younger because you have time on your side and can weather the typical ups and downs of the stock market over a long-term horizon. As we've stated above, target date allocations are automatically adjusted, gradually shifting from higher risk and reward to lower risk and reward as they get closer to their target retirement dates.

The target date funds are extremely popular because they allow the participant to set-it and forget-it, putting their 401(k) account on auto pilot. However, what is often a great investment solution for many participants early in their career becomes less appropriate for many as they approach retirement. Target date funds are not meant to be personalized investment advice as every participant will have different risk tolerances, unique needs, and time horizon goals that shape their investment choices, especially when they retire. Each participant has different income needs, lifestyles, and resources in retirement. People should have an individualized income plan for retirement, and target date funds can't do that.

If you are a young 401(k) participant and have a lot of time before retirement, there are few times that it does not make sense for you to invest aggressively. But as people approach retirement, the best investment strategy starts to change depending on the situation. Even two people retiring at the same time will probably need to have different investment strategies, depending on personal circumstances.

Target date funds have three serious drawbacks you should consider:

1. **Target date funds have a set glide path without regard to underlying economic fundamentals.**
   Target date fund holdings are adjusted based on a preset formula. If equities pose a potentially good buying opportunity, target date funds will not adjust to purchase more equities. Conversely, if equities do not look as attractive as other asset classes, there will be no reduction in equity holdings. These funds are not actively managed to take advantage of market trends. They will experience the same volatility as what is occurring in the current market conditions.

   Looking at the glide path of the Fidelity Freedom funds with ten (10) years left until retirement, the fund still has roughly 65% invested in equities. Because target date funds are on a preset formula, you are subject to sequence of returns risk, which is the potential for negative returns in the last few years before retirement. For example, if the markets experience a substantial market downturn like the 2008 global financial crisis when the S&P 500 lost 48% in six-months, or the 2020 COVID-19 induced market crash when the S&P 500 lost nearly 35% in just a few weeks, these types of downturns can destroy the value of your retirement savings. What is even worse is that if a crash occurs immediately before retirement, you may no longer be able to retire if you want to enjoy the same standard of living.

As you get closer to retirement, target date funds can be an extremely poor choice for 401(k) participants given the sequence of returns risk, described above. These funds are designed to be hands-off asset allocation funds and you will be subject to the whims of the market, even as you near retirement. If you want to become a 401(k) millionaire, you need to be more proactive about protecting your assets from market volatility when you are close to retirement or are in retirement.

Let's look at the sequence of returns risk in more detail because it is a critical concept that comes into play as you near retirement.

Sequence of returns risk analyzes the order in which your investment returns occur. It affects you when you are periodically adding or withdrawing money from your investments. In retirement, it can mean that you earn a much lower internal rate of return than what you expected. The best way to understand sequence of returns risk is with an example (see the chart to the right)[11].

In this example both Mr. Green and Mr. Brown experience different sequence of returns during retirement. Even though their returns are different each year, they have an average return of 6% and consequently their ending balance at age 90 is the same.

	"Up" Market - Mr. Green		"Down" Market - Mr. Brown	
Age	**Annual Return**	**Year End Value**	**Annual Return**	**Year End Value**
65		$1,000,000		$1,000,000
66	5%	$1,050,000	-25%	$750,000
67	28%	$1,344,000	-14%	$645,000
68	22%	$1,639,680	-10%	$580,500
69	-5%	$1,557,696	16%	$673,380
70	20%	$1,869,235	21%	$814,790
71	19%	$2,224,390	5%	$855,529
72	23%	$2,736,000	-16%	$718,645
73	9%	$2,982,240	8%	$776,136
74	16%	$3,459,398	14%	$884,795
75	23%	$4,255,059	24%	$1,097,146
76	22%	$5,191,172	14%	$1,250,747
77	-26%	$3,841,468	5%	$1,313,284
78	-15%	$3,265,247	-15%	$1,116,291
79	5%	$3,428,510	-26%	$826,056
80	14%	$3,908,501	22%	$1,007,788
81	24%	$4,846,541	23%	$1,239,579
82	14%	$5,525,057	16%	$1,437,912
83	8%	$5,967,062	9%	$1,567,324
84	-16%	$5,012,332	23%	$1,927,808
85	5%	$5,262,949	19%	$2,294,092
86	21%	$6,368,168	20%	$2,752,910
87	16%	$7,387,075	-5%	$2,615,264
88	-10%	$6,648,367	22%	$3,190,623
89	-14%	$5,717,596	28%	$4,083,997
90	-25%	**$4,288,197**	5%	**$4,288,197**
Average Return	**6%**		**6%**	

Source: Redhawk Wealth Advisors, Inc.

If you are taking withdrawals from your portfolio, the order or the sequence of investment returns can significantly impact your portfolio's overall value. Consider the following hypothetical investment scenarios for Mr. Green and Mr. Brown. Mr. Green and Mr. Brown both started with a $1 million investment portfolio at age 65. Both averaged a 6% annual return that grows to the same value after 25 years, but they experience their annual returns in an inverse order from each other.

Once you start withdrawing income, you are affected by the change in the sequence in which the returns occurred. Now let's look at how the sequence of returns can impact a portfolio when taking distributions (see the chart below). Mr. Green and Mr. Brown still start with an initial $1 million investment portfolio. But in this example, they start taking 5% withdrawals (of the initial value) beginning immediately at age 65. Mr. Green begins taking withdrawals in an up market, giving him the optimal environment to maintain his portfolio value long-term.

Unfortunately for Mr. Brown, he starts taking income in a down market and depletes his entire portfolio before reaching age 83. It is important that you have a sound risk management process so that your portfolio changes in response to various market conditions.

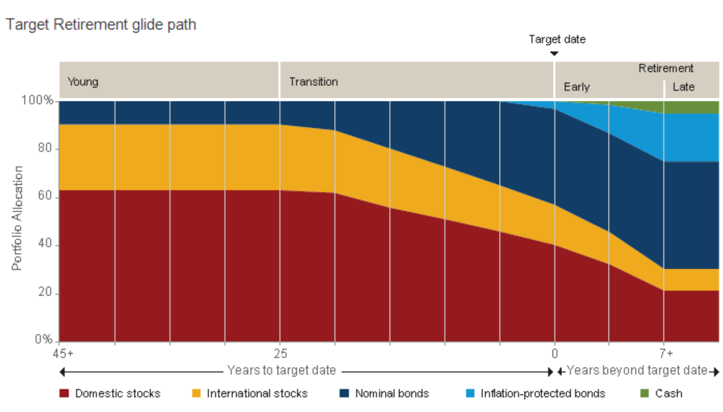
	"Up" Market - Mr. Green			"Down" Market - Mr. Brown		
Age	5% Annual Withdrawals	Annual Return	Year End Value	5% Annual Withdrawals	Annual Return	Year End Value
65			$1,000,000			$1,000,000
66	$50,000	5%	$1,000,000	$50,000	-25%	$700,000
67	$50,000	28%	$1,230,000	$50,000	-14%	$552,000
68	$50,000	22%	$1,450,600	$50,000	-10%	$446,800
69	$50,000	-5%	$1,328,070	$50,000	16%	$468,288
70	$50,000	20%	$1,543,684	$50,000	21%	$516,628
71	$50,000	19%	$1,786,984	$50,000	5%	$492,460
72	$50,000	23%	$2,147,990	$50,000	-16%	$363,666
73	$50,000	9%	$2,291,309	$50,000	8%	$342,760
74	$50,000	16%	$2,607,919	$50,000	14%	$340,746
75	$50,000	23%	$3,157,740	$50,000	24%	$372,525
76	$50,000	22%	$3,802,443	$50,000	14%	$374,679
77	$50,000	-26%	$2,763,808	$50,000	5%	$343,412
78	$50,000	-15%	$2,299,237	$50,000	-15%	$241,901
79	$50,000	5%	$2,364,199	$50,000	-26%	$129,006
80	$50,000	14%	$2,645,186	$50,000	22%	$107,388
81	$50,000	24%	$3,230,031	$50,000	23%	$82,087
82	$50,000	14%	$3,632,235	$50,000	16%	$45,221
83	$50,000	8%	$3,872,814	$50,000	9%	$0
84	$50,000	-16%	$3,203,164	$50,000	23%	$0
85	$50,000	5%	$3,313,322	$50,000	19%	$0
86	$50,000	21%	$3,959,120	$50,000	20%	$0
87	$50,000	16%	$4,542,579	$50,000	-5%	$0
88	$50,000	-10%	$4,038,321	$50,000	22%	$0
89	$50,000	-14%	$3,422,956	$50,000	28%	$0
90	$50,000	-25%	**$2,517,217**	$50,000	5%	**$0**
Average Return		**6%**			**6%**	

Source: Redhawk Wealth Advisors, Inc.

During your retirement years, if a high proportion of negative returns occur in the beginning years of your retirement, it will have a lasting negative effect and reduce the amount of income you can withdraw over your lifetime. As discussed, this is called the sequence of returns risk. When you are retired, you need to sell investments periodically to support your cash flow needs. If the negative returns occur first, you end up selling some holdings, so you reduce the shares you own that are available to participate in the later-occurring positive returns.

2. Target date funds may have too much allocated to international equities.

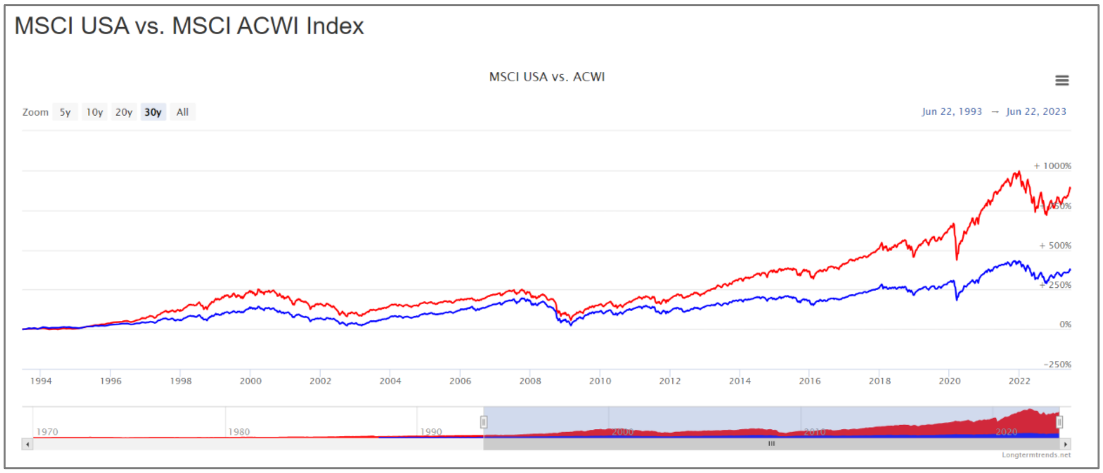
When looking at the asset allocations of target date funds, it is interesting to note that some may have up to 30% invested in international equites (see the chart below for target date funds that have twenty-five (25) or more years to retirement)[12].



Source: savingtoinvest.com

Additionally, international equities have consistently underperformed U.S. markets (see the chart below comparing the MSCI USA (red line) to the MSCI ACWI (blue line)). ACWI stands for "All Country World Index."

Note: MSCI is an acronym for Morgan Stanley Capital International. It is an investment research firm that provides stock indexes, portfolio risk and performance analytics, and governance tools to institutional investors and hedge funds. MSCI is perhaps best known for its benchmark indexes.

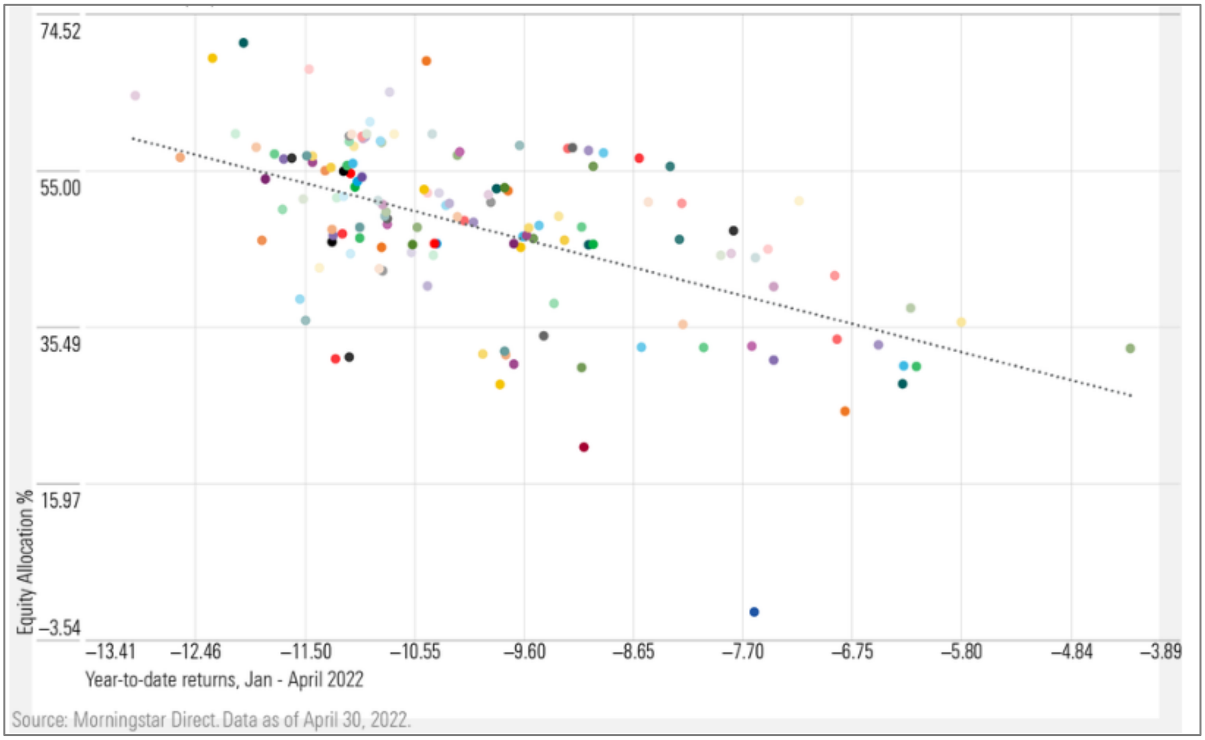


Source: Longtermtrends.

3. Target date funds can become too aggressive upon their maturity date.

How much a target date fund company manager allocates to equities differ the most around the maturity date. Some target date fund companies believe the primary directive for investors close to retirement is to preserve capital, requiring a significantly larger allocation to bonds. However other target date fund company managers maintain that the demands of longer lives, and potentially lower returns require a higher allocation to equities for longer periods.

The degree of difference among the equity allocations for 2025 target date funds is eye-opening. The highest tops out at 75%, while the lowest bottoms out at 20%. There is no coincidence that there is a strong relationship between equity allocation and losses in 2022. As shown in the chart below, the higher the equity allocation (y-axis), the greater the losses (x-axis)[13].



As highlighted above, target date funds automatically shift to a more conservative asset allocation as you approach your planned retirement date. Many 401(k) participants have chosen a target date fund because it sounded like an "autopilot" solution. However, when you fly on an airplane, only the middle of your flight is set to autopilot, you still need a pilot for a safe takeoff and landing. Autopilot without a pilot is dangerous, not safe.

Additionally, target date funds assume that all 401(k) participants who plan to retire in the same year have the same risk tolerance and financial goals. Not every 50-year-old has the same tolerance for risk. This is clearly not the case and the funds you choose for your 401(k) plan can be the difference in achieving the retirement you have always wanted or becoming the next 401(k) millionaire.

Don't invest in a target date fund so you can be a 401(k) millionaire.

Lesson #4: Bypass selecting funds based upon past performance.

I am sure you have heard it before that "past performance is no guarantee of future results." Remember, you are investing for the future, not the past and funds cannot guarantee to repeat what they have done in the past. As you can see in the chart below, each year there is a different top performing asset class in the market.

																2008 - 2022	
2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD	Ann.	Vol.
Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	REITs 41.3%	Comdty. 16.1%	Large Cap 10.3%	Large Cap 8.8%	REITs 23.4%
Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Cash 1.5%	DM Equity 9.2%	Small Cap 7.2%	Small Cap 23.2%
Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 27.1%	High Yield -12.7%	Asset Alloc. 4.1%	REITs 6.6%	EM Equity 23.0%
High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 14.8%	Fixed Income -13.0%	EM Equity 2.6%	Asset Alloc. 6.1%	Comdty. 20.2%
Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Asset Alloc. 13.5%	Asset Alloc. -13.9%	High Yield 2.3%	High Yield 5.4%	DM Equity 20.0%
Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	DM Equity -14.0%	Cash 1.8%	Fixed Income 2.7%	Large Cap 17.7%
Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	Large Cap -18.1%	Small Cap 1.3%	DM Equity 2.3%	High Yield 13.0%
REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	EM Equity -19.7%	Fixed Income 1.2%	EM Equity 1.0%	Asset Alloc. 12.4%
DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.5%	Small Cap -20.4%	REITs -3.2%	Cash 0.6%	Fixed Income 4.2%
EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	EM Equity -2.2%	REITs -24.9%	Comdty. -9.5%	Comdty. -2.6%	Cash 0.4%

Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Fixed Income: Bloomberg US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg US Aggregate, 5% in the Bloomberg 1-3m Treasury, 5% in the Bloomberg Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/2007 to 12/31/2022. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of May 26, 2023.

Additionally, a study conducted by Russell Investments found that the average stock fund investor's inclination to chase past performance cost them 2% annually in the 33-year period from 1984-2016[14].

Instead of chasing past performance when selecting funds to invest in your 401(k) plan, a much better approach is to focus on your financial goals, time horizon for retirement, and tolerance for risk, which is commonly called your *investment objective*. Let's look at these in more detail.

Financial goals.

Financial goals are targets, usually driven by specific future financial needs and your 401(k) account may play a big part in achieving these goals. Some financial goals you might set as an individual include saving for a comfortable retirement, saving to send your children to college, managing your finances to purchase a home, or becoming the next 401(k) millionaire. A goal is the first step that sets you on a path and should be inspirational, based on your own values and interests. Ask what matters most to you? What are you willing to sacrifice to make it happen? What can help you stay the course?

Categorizing your financial objectives into short, medium, and long-term provides focus for your plan. Since your 401(k) account is used to satisfy long-term goals and specifically retirement, we won't discuss short-term and medium-term goals in this guide.

Long-term goals are more than fifteen years away. Some of life's biggest goals, including retirement, fall into this category. For your long-term goals, you may want to consider more aggressive investments which will potentially earn you more money. As we have mentioned earlier in the guide, as your goal nears, it makes sense to increase the percentage of more conservative investments to reduce risk and ensure your financial stability.

Time horizon for retirement.
The amount of time you have until retirement is considered your time horizon and it is instrumental in determining how you should manage risk. The more time you have, the easier it will be for your 401(k) account to absorb risk. To balance both the income and growth levels of your 401(k) account you will need to allocate your money according to your level of acceptable risk as well as the amount of time you have available to achieve your goals.

Remember, the longer your time horizon, the more volatility you can tolerate in your portfolio. For example, if you are pursuing a longer-term goal such as retirement, you will be most concerned with long-term growth and managing inflation risk. Your portfolio should be more heavily weighted in equities as these have historically provided the highest long-term returns and outpaced inflation by the widest margin. You may also want to put some money into bonds to help mitigate the higher risks associated with equities. Keep in mind that equities offer long-term growth potential but will fluctuate widely and it is always prudent to buffer the volatility with an allocation to bond investments.

On the other hand, if you are already in retirement, you may need to rely heavily on the income from your 401(k) account. Therefore, you may seek to manage income and manage risk of short-term losses. Your 401(k) account will likely be weighted in bond investments with some equity funds in the mix to maintain growth potential.

Tolerance for risk.
Your risk tolerance is the degree of variability in investment returns that you are willing to live with. You should have a realistic understanding of your ability and willingness to stomach large swings in the value of your 401(k) account. For example, if you take on too much risk, you might panic and sell at the wrong time.

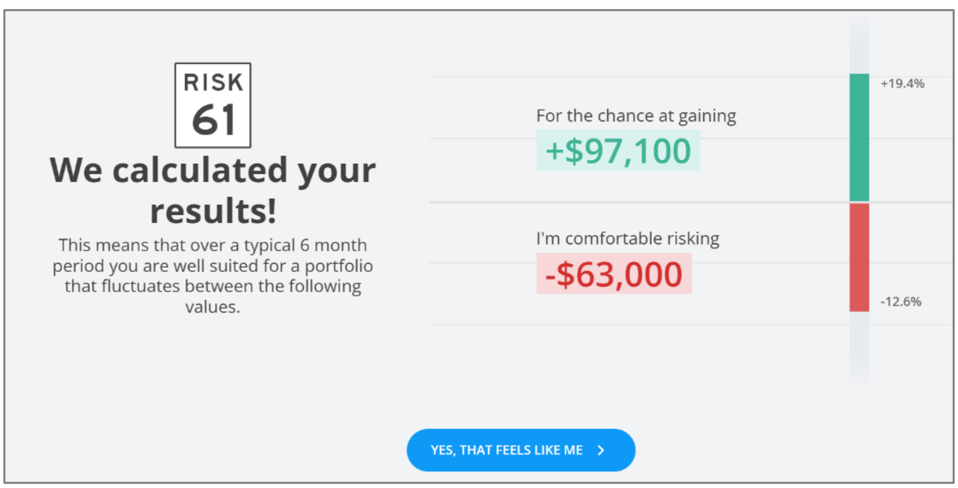
Diversifying your 401(k) account among several funds plays a key role in reducing risk. For instance, if one of your 401(k) funds experiences a loss, the other funds may have a positive return at the same time, thus balancing out your risk. Having a diversified 401(k) account is a wise practice and the benefits of diversification generally outweigh the risks of diversification.

If you invest all your money in a single fund and it has a bad year, you could lose a sizeable portion of your account. However, if only 20% of your money was in that fund, you still have the other 80% of your account working for you. As shown in the prior table, one year's best performing asset class can be the next year's worst, so the table clearly demonstrates the importance of diversification.

We use an application called Nitrogen[15] to help you see just how much risk you are taking or need to take in your 401(k) account. Nitrogen provides you with a clear picture of where you are in the risk spectrum and where you need to be. Simply put, it does a better job at capturing your appetite and capacity for risk.

A major mistake made by many 401(k) participants is that when the markets pull back, they sell to protect their account and lock-in horrible losses. To exacerbate this lapse in judgement, they then most likely sit out of the recovery and wait until they feel comfortable to get back in the market, which is usually at or near the top.

The Nitrogen Risk Number[16] and corresponding risk/reward range (your comfort zone) allows you to quantify your level of risk. Most risk tolerance questionnaires are very subjective and do a poor job of accurately pinpointing your appetite for risk. With Nitrogen you are empowered by transparent, objective, well-defined, actionable expectations and the probability of success is quantified and unemotional.



Source: Nitrogen

Nitrogen is a great tool to quantify your risk, but what does your Risk Number mean? As you can see in the graphic to the right, if you score a 61 out of a maximum score of 99, you are comfortable with the risk of losing 12.6% with the opportunity of gaining 19.4% over the next six months.

If you can understand your level for risk, then you won't feel panicked at every bump or blip in your 401(k) account. To help determine your risk profile, consider the following definitions:

- *Conservative* – You can withstand and recover from losses up to a maximum of 5% of your 401(k) account within a given year. Risk Number Range: 1-40.

- *Moderate* – You can withstand and recover from a 5% to 15% loss in your 401(k) account within a given year. Risk Number Range: 40-65.

- *Aggressive* **–** You can withstand and recover from a 15% or more loss in your 401(k) account over the next six months. Risk Number Range: 65-99.

Investment objective.
Your investment objectives will become clear once you have defined your financial goals, your time horizon for retirement, and your tolerance for risk. Simply defined, an investment objective is a set of goals you have for your portfolios. The portfolios could have different objectives based on the account and the purpose in retirement. The portfolios could be growth-orientated, income-driven, or a combination of both.

Select funds based on your risk tolerance and objectives so you can be a 401(k) millionaire.

Lesson #5: Ward off the "set-it-and-forget-it" syndrome.

Putting money into your 401(k) account through automatic payroll deductions can make investing for retirement seem effortless. But don't let the fact that it's easy to lull you into thinking that you're all set.

Just because your 401(k) contribution is automatic doesn't mean you should put your account on autopilot. In fact, giving your 401(k) account the attention, it deserves on a regular basis may make an enormous difference in whether you are adequately prepared for retirement. With that in mind, here are four ways to get more actively involved with your retirement plan and help keep it on track so you save.

1. **Make a point of checking on a regular basis.**

   It's important to check your 401(k) account periodically and rebalance, when necessary, to make sure your investments are still in line with your goals and properly diversified to help you minimize risk.

   A myriad of work and life events can alter your financial situation such as a promotion and a raise, a marriage or divorce, the birth of a child, the added responsibility of caring for an aging parent or even your retirement date getting closer. That's why it makes sense to do a regular 401(k) account review at least once a year. Some people use their annual benefits enrollment period, when they are looking at their other workplace benefits, as a good reminder to review their retirement plan choices too.

   Market fluctuations can cause the value of the investments in your 401(k) account to change as well. So, what started as your preferred mix of stocks, bonds and cash equivalents may have changed, with too much of your account in one type of investment and not enough in another. That's why it's important to check your account periodically and rebalance when necessary to make sure your investments are still in line with your goals and properly diversified to help you minimize risk.

2. **Increase your contribution percentage whenever you can.**

   Small increases add up over time through the power of tax-deferred compound growth (where your earnings may also grow, and the value can potentially snowball). So, when you get a raise or finish paying off your school loans, log into your account and increase your monthly 401(k) contribution. You can schedule future increases any time you review your account online.

   A growing number of employers are choosing programs with a feature called automatic escalation, which automatically boosts an employee's contribution each year. In fact, regular increases are so important to the future retirement accounts of American workers that new legislation will require employers, starting in 2025, to automatically enroll employees in workplace plans and increase their contributions by 1% annually until contributions reach at least 10% but not more than 15%. Employees can opt out of the annual raises, but with the increases made automatic, employees are nudged to contribute more, thus counteracting their natural inclination not to update their 401(k) accounts.

3. **Check your investment mix periodically and rebalance if necessary.**
As the value of your 401(k) investment's changes over time, the percentages that you've allocated to equities, bonds, and cash equivalents will also change. For example, If the equity funds you own have done well, your account may have a higher allocation to equities (and more exposure to risk) than you originally intended. If your equity funds performed poorly, your account may now have a lower allocation to equities than you intended and less potential for growth.

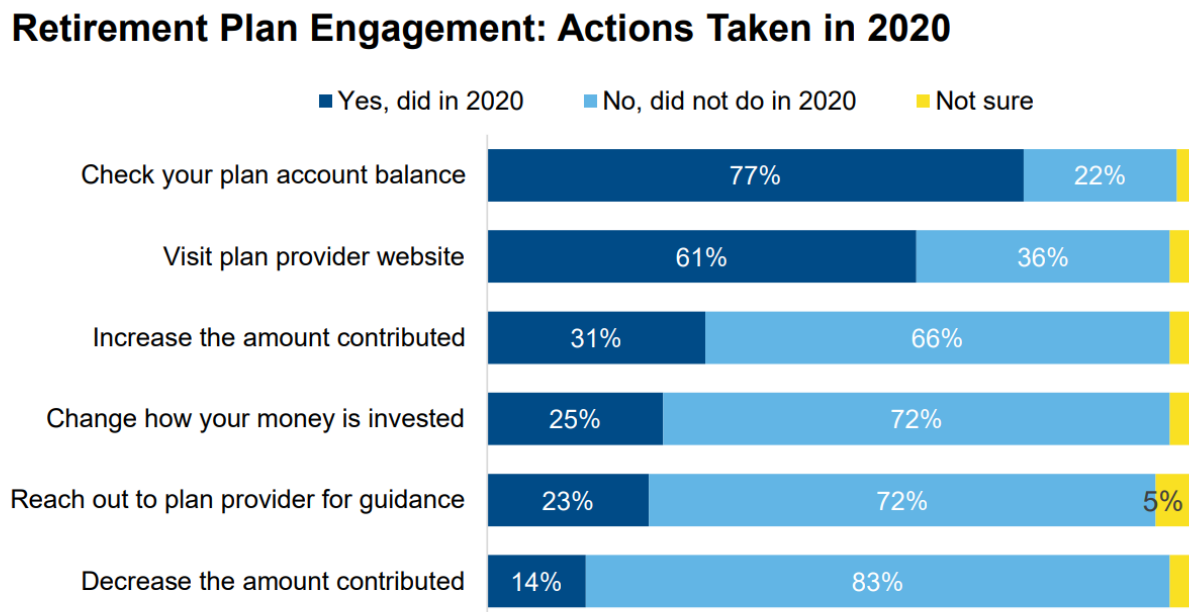
In both cases, it may be time to adjust, or "rebalance," your 401(k) account to bring it back to your original asset mix. That could mean putting more of your future contributions toward investments that have lagged or shifting some of the money in the investments with an over-allocation to those that need a boost.

4. **Take advantage of your employer's match and catch-up contributions.**
If your company offers to match a portion of your 401(k) contributions, try to contribute at least enough to qualify for it. That extra money could really help your balance add up over time.

Also, starting in the year you reach age 50, you are eligible to make catch-up contributions to your 401(k) account. So, if your salary increases, you've written that last check for college tuition or you're downsizing your home, you can increase your contribution percentage and give your 401(k) account helpful boosts over the last decade or so of your working career.

So, don't just "set it and forget it." Take advantage of the opportunities and features your plan may offer, such as employer matching contributions, voluntary contribution increases, and automatic escalation, to help you manage your 401(k) account and stay on track.

Participants need to be more proactive and reallocate their 401(k) account to reflect the changes in their life or current market conditions. A recent TIAA CREF survey found that 72% of workers did not update how their money was invested in 2022 (see chart below)[17].



Source: TIAA CREF

This strategy changes drastically with younger participants. Millennials were significantly more likely to have changed how their money was invested in the past year, with 59% who did so compared to those 35 years or older, with only 42% who participated. ***Of those age 55 or older, 34% say they have never made a change to the way their money is invested.***

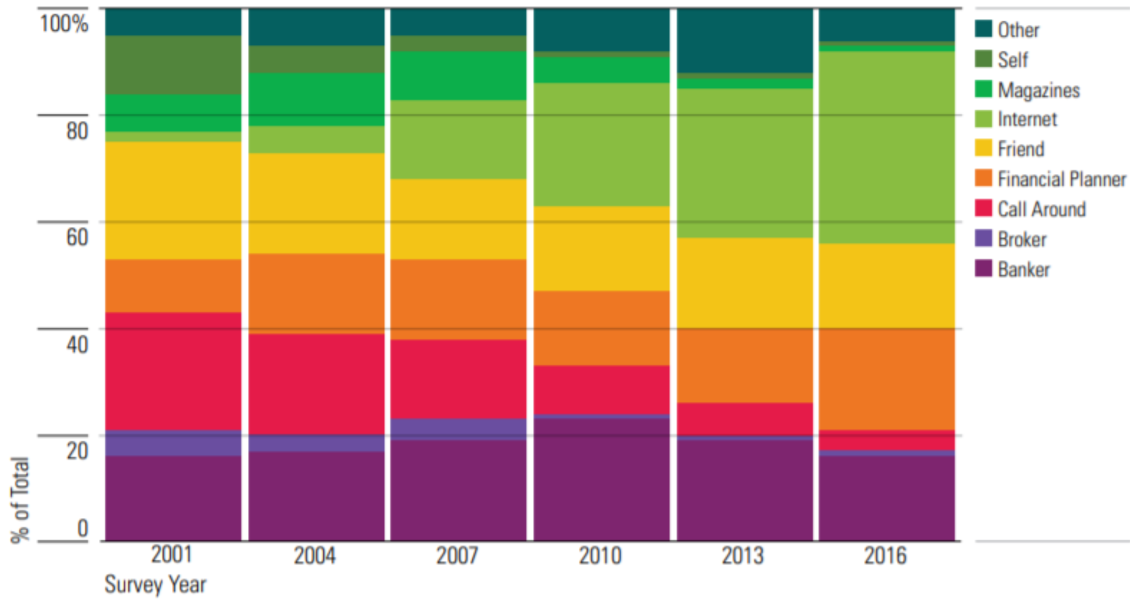
Inertia is a well-documented phenomenon by experts who study behavioral finance. It is a condition where 401(k) participants are comfortable doing nothing. Participants worry about making the wrong decision and faced with too many choices, they do not know what to do. They dislike tasks that entail making multiple decisions, so they end up doing nothing.

When looking at 401(k) accounts in general, it is interesting to note where most participants get their financial advice. Over time, the internet has become the place of choice for the information. Changes in investor behaviors have been noted in responses in the Survey of Consumer Finances (SCF)[18].

The SCF is a triennial cross-sectional survey of U.S. families conducted by the Federal Reserve Board. The SCF specifically asks respondents about information sources used when making savings and investment decisions. The exact text of the question is:

- How do you (and your [spouse/partner]) make decisions about savings and investments? Do you call around, read newspapers, review material you get in the mail, use information from television, radio, an online service, or advertisements?
- Do you get advice from a friend, relative, lawyer, accountant, banker, broker, or financial planner? Or do you do something else?

The chart below shows information from the study where the first information source noted by the respondent is deemed to be the "primary" source of savings and investment decisions for the respondent and or household.



Source: Survey of Consumer Finances

The chart above demonstrates the growing importance of the internet as an investment advice source for households across America. For example, while only 2% of households named the internet their primary information source in 2001, the share increased to 36% by 2016. This is more than the next two advice sources combined (financial planner at 19% and a friend at 16%). It is remarkably interesting to note that 60% of 401(k) plan participants get their investment information from either the internet, friends, magazines, or some other source.

A recent study by Morningstar showed the importance of making the right choice when joining a 401(k) plan[19]. So, let's look at the three paths you can choose from when enrolling in your 401(k) plan and draw conclusions from the Morningstar study. The chart below highlights the three paths that are available to you when enrolling in the plan and the amount of investment knowledge you need.

Source: Morningstar

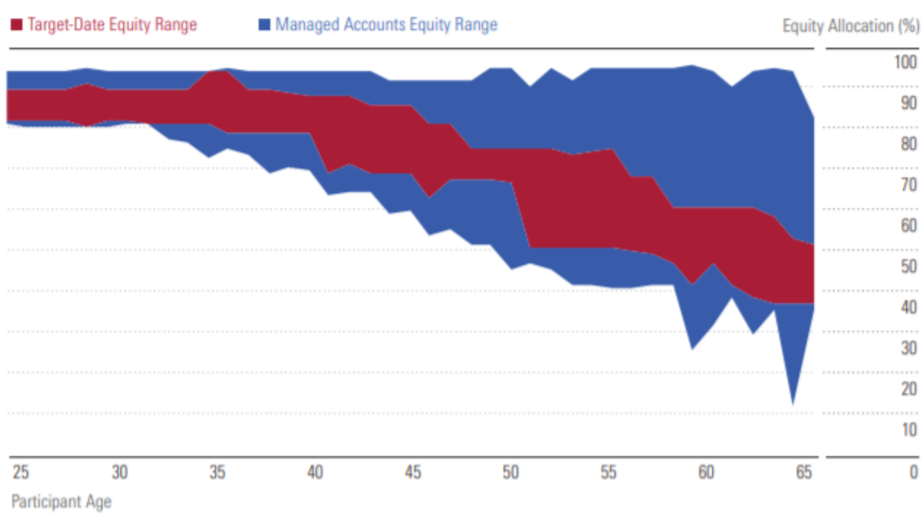
1. *Self-Selection* – This is the do-it-yourself path. Under this approach, you are making the investment decisions and selecting the funds. As mentioned above, maybe you get your information from the internet or a friend. This option requires that you be deeply knowledgeable on investing and retirement planning. According to the Morningstar survey, self-selection delivers the worst retirement outcomes for the typical participant and requires the highest participant expertise.

2. *Target Date Funds* – As we have discussed earlier in this guide, these funds are designed to adjust the asset allocation, or glide path, based on your age and the year you want to retire. It treats everyone the same; a one-size-fits-all approach. As noted, the glide path may not be the best fit for your situation as you near retirement. Not everyone has the same risk tolerance or retirement objectives.

3. *Financial Advisor/Managed Accounts* – Under this path, you work with a financial advisor, and they customize your 401(k) account based on the funds available in the 401(k) plan, your risk profile, time horizon, and retirement objectives that fit your unique situation. According to the study conducted by Morningstar, 401(k) participants are best served meeting regularly with a financial advisor and it provided the best retirement outcomes.

Target date funds and managed accounts enrollment paths.
So, if you don't want to spend the time to educate yourself on current investing principals and retirement planning, let's look at the target date fund option and the managed account option and see which one is the better path.

In the Morningstar study, they analyzed several target date fund glide paths from different investment providers. In the chart below, you can see the range of the equity portion at the various ages of the participant. The equity range for the target date funds is in red and the managed account's equity range is shown in the dark blue.



Source: Morningstar

As you know, a target date fund uses the participant's year of retirement as the sole variable to determine the suitable asset allocation. In contrast, when working with a financial advisor, they can collect a vast amount of information on you and your retirement objectives to determine a personalized asset allocation portfolio. These differences are shown above where the equity allocations for 401(k) participants who are in a target date fund have a narrower range as compared to the participants that are invested in a managed account that have a customized portfolio to fit their goals and objectives.

Many 401(k) participants are lulled into a sense of complacency by the simplicity of their 401(k) accounts. They are led to believe that they can simply choose a fund, set up a contribution amount, and their account will grow on autopilot. However, as we have already shown, this may not always be the case.

Work with a financial advisor to manage your account so you can be a 401(k) millionaire.

Lesson #6: Refrain from taking a withdrawal or a loan from your account.

Taking a loan or withdrawal from your 401(k) account before you retire can have a significant negative impact on the amount of money you will have when you retire.

As you know, most 401(k) plans allow for loans and the most popular are for general-purpose and residential. A loan lets you borrow money from your 401(k) account and pay it back to yourself over time, with interest whereas the loan payments and interest go back into your account. A general-purpose loan typically has a repayment term of 1 to 5 years, while a residential loan for the purchase of a primary residence typically has a repayment term of 1 to 15 years. The plan may limit the number of loans you can take and how much you can distribute from the plan.

Your 401(k) plan may allow participants also to take a hardship withdrawal if you have a financial need as the result of a recurring negative cash flow, medical expenses, a personal casualty loss, or legal expenses associated with a divorce. Most plans limit the withdrawal from employee contributions and includes a 10% early withdrawal penalty if the person is younger than age 59 ½.

The share of 401(k) participants taking hardship withdrawals from their accounts rose to 2.4% in 2022, up from 1.9% in 2021, according to financial services firm Fidelity. That represents the highest share of hardship withdrawals recorded at Fidelity, which noted the percentage typically ranges from 2% to 2.3% annually. The rise in hardship withdrawals comes after a year that has seen the highest inflation in four decades, along with rising interest rates, factors that have made it more expensive to live and pay for goods and services.

Almost one in three workers (29%) have taken a loan and/or early withdrawal from retirement accounts. Generation X (32%), full-time workers (31%), and workers with household income of $50,000 to $99,999 (31%) are slightly more likely to have done so[20]. According to a 2020 study conducted by the Employee Benefit Research Institute (EBRI), 16% of 401(k) participants had an outstanding loan.

Reasons why you do NOT take a loan from your 401(k) account.

There are many reasons why you should not borrow from your 401(k) account. Listed below are some of the most important ones[21]:

1. The repayment will cost you more than your original contributions.

The main advantage of a loan from your 401(k) account is that you are simply borrowing from yourself at a very low interest rate. This becomes questionable once you examine how you will have to repay the money. Funds that you borrow were most likely contributed on a pre-tax basis, but you will pay yourself back for the loan with after-tax money. If you are in the 24% tax bracket, for example, every $1 you earn to repay your loan leaves you with only 76 cents for that purpose and the rest goes to income tax.

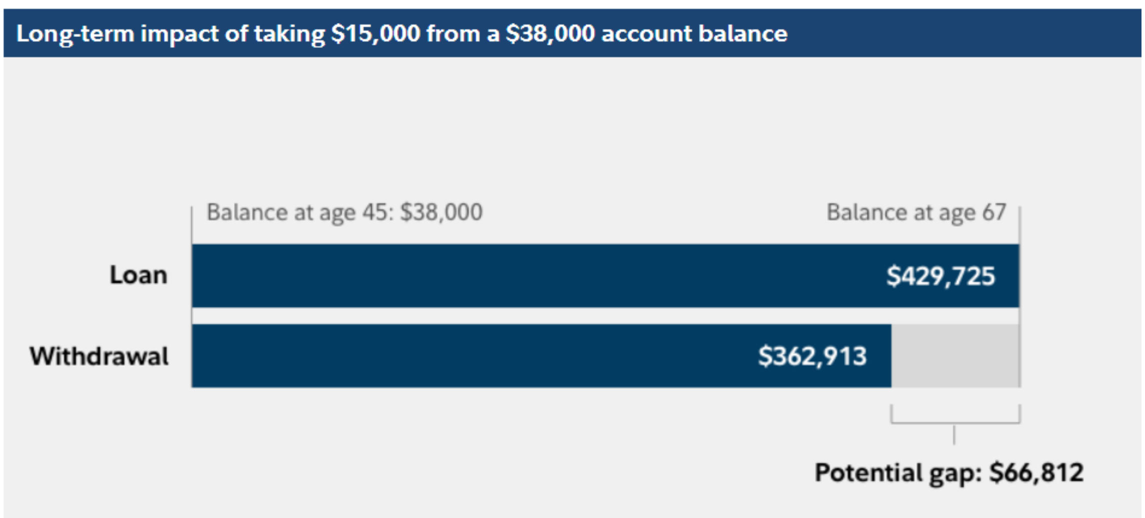
2. The borrowed funds aren't earning any investment return.

While you are borrowing funds from your 401(k) account, the funds will not be earning any investment return. There is a significant opportunity cost equal to the lost growth on the borrowed funds. For example, if your 401(k) account has a total return of 8% for a year in which funds have been borrowed, the cost on the loan is the interest rate of the loan (use 4% for this example) PLUS the 8% return, which is a total of 12%. That's an expensive loan.

3. You may contribute less to the 401(k) plan while you have the loan.

If you borrow money from your 401(k) account, you may be unable to afford to make contributions while you are repaying the loan. Such a freeze in additional funding will deprive your 401(k) account of increasing in value of the contributions and compound earnings. The gap in what you might have made is wider still because your skipped contributions lead to missed matches from your employer.

It might be tempting or a requirement to reduce or pause your contributions while you are paying off your loan. However, keeping up with your regular contributions is essential to maintaining your retirement strategy[22]. As you can see in the chart below, taking a $15,000 loan from a $38,000 account balance when you are 45, could leave you with a potential shortage of $66,812 when you retire.



In this hypothetical withdrawal scenario, a total of $23,810 is taken from the account so that 37% ($8,810) of the withdrawal is set aside for taxes and penalties and the remaining amount ($15,000) is received, leaving $14,190 in remaining balance at age 45. In this hypothetical loan scenario, the loan period is 5 years, starting at age 45, and the loan interest rate is 6.5%. The hypothetical 22-year time frame between ages 45 and 67, assumes an annual income of $75,000 with a 1.5% increase yearly, a personal rate of return of 4.5%, an employee contribution amount of 5%, and an employer contribution amount of 5%. Both scenarios assume there are no additional loans or withdrawals during the hypothetical 22-year time frame. Your own account may earn more or less than this example, and taxes are due upon withdrawal. Loans are repaid into the retirement account using after-tax money, and that money will be taxed a second time when it's withdrawn again.

Source: Fidelity

Reasons why you do NOT take a withdrawal from your 401(k) account.
Most 401(k) plans allow for hardship and in-service withdrawals while you are still working. An in-service withdrawal can have a serious negative impact on your 401(k) account. The purpose of your 401(k) account is to accumulate savings so that you will have income during retirement. Some of the reasons why you should not take a withdrawal from your account include:

1. *Withdrawals permanently reduce your retirement savings as well as any earnings you would have earned.*

2. *Withdrawals may be subject to income taxes or other penalties.*

3. *If you are a married, your spouse must sign a consent waiver for your in-service withdrawal.*

Don't take a loan or a withdrawal so you can be a 401(k) millionaire.

Lesson #7: Take advantage of the self-directed brokerage account (SDBA).

Many 401(k) plans offer a self-directed brokerage account option. The SDBA allows 401(k) participants to allocate funds in their account to thousands of investments including mutual funds, ETFs, and stocks (see the diagram below as an example).

Source: Redhawk Wealth Advisors, Inc.

An SDBA is not a new concept and has been available in many 401(k) plans since the 1990s and roughly 40% of company 401(k) plans offer one. Now let's look at some of the potential benefits and risks of using an SDBA[23].

Potential benefits of an SDBA.

There are several advantages in having a self-directed brokerage account.:

- *You have more investment choices.* You can choose from a wide range of investments that fit your situation. Simply put, you have more choice and control over the investments in your 401(k) account. If we are called upon by a 401(k) participant, we will employ our technology and tools to review the thousands of investments available in the SDBA. We will utilize the same investment monitoring, selection, and replacement process that we use for high-net-worth individuals and endowments. The custom 401(k) portfolio will be created using the top scoring mutual funds based on its asset class, quality, momentum, and performance with the asset allocation to fit your risk score.

- *You can trade actively.* For those interested in active trading, the SDBA allows you to trade without worrying about the immediate tax impact, wash sale rules, or the difference between short-term and long-term capital gains.

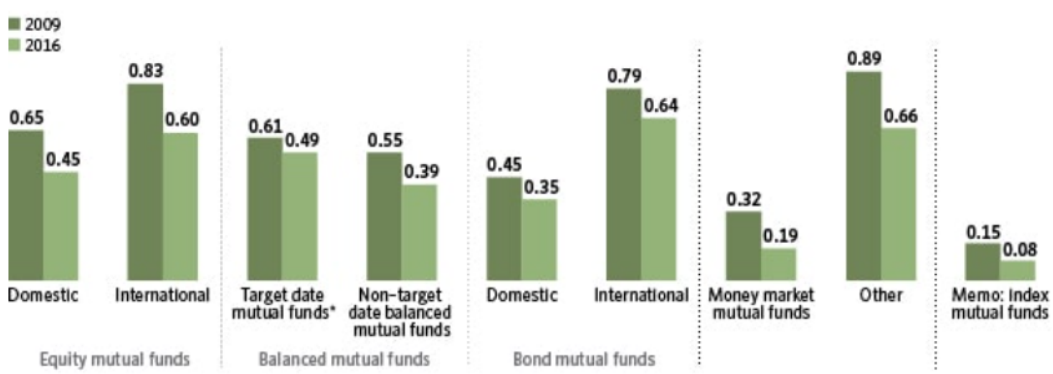
- *You can use a financial advisor.* You don't have to go it alone! You can employ a financial advisor to manage your SDBA. This approach allows you to have a financial professional manage your account based on your risk tolerance and retirement objectives. The account management typically includes trading and rebalancing the account. A financial advisor will be able to use the portfolios constructed specifically for your 401(k) plan.

Potential risks of an SDBA.
A self-directed brokerage account also has some drawbacks:

- *You may be taking on more risk.* If you manage the SDBA by yourself, you are much more exposed to risks. You may be taking too much risk that the core 401(k) plan funds are designed to help mitigate. Taking on more risk in your largest investment account is not a prudent decision.

- *It can take a lot of time.* You must spend the necessary time to research the thousands of funds and many people do not have the time or expertise to select, monitor and replace funds in their account efficiently. The 401(k) plan does not monitor the funds that are available, and it is up to you.

- *There may be higher costs.* There may be additional fees and trading costs. Some of the funds available will have higher expense ratios than the core funds in the 401(k) plan. Mutual fund costs in retirement plans have been coming down over the years and you can see that in the chart below, the average domestic equity fund was 0.45% in 2016. Just because a mutual fund may have a higher expense than the core funds, doesn't mean that it's a terrible thing. You want to focus on the net return, meaning the return after expenses. For example, if the expense ratio of a core fund is 0.30% and the annual gross



Source: U.S. News and World Report

return was 15%, the net return is 14.70%. Now if a mutual fund has an expense ratio of 0.60% and the annual gross return was 17%, the net return is 16.40%. It's critical that you don't just look at the cost of the fund, but you should focus on the net return.

- *You may trade too often.* For your investments that are for retirement, taking a long-term time horizon is generally a better approach for individual investors. Frequent trading is short-term focused, and retirement is a long-term objective.

- *There might be too many choices.* Investors potentially expose themselves to much greater risk when they have a wide range of investment choices that have not been vetted. You want to make sure you have a well-diversified portfolio that is in line with your tolerance for risk and retirement objectives. Let's face it, most investors simply don't have the right tools or investment experience to review thousands of funds.

So, what should you do?
If you like to constantly educate yourself about individual securities and the wider market, and if you don't mind checking your account more often, then using a SDBA may be for you. At the end of the day, it is about knowing yourself and what kind of investor you are.

If you don't have the time, resources, energy, and knowledge to utilize the SDBA, but still want more exposure to a wider range of investment options and a broader sense of control, hiring a financial advisor to manage your account using the SDBA might be the best choice for you.

A fantastic way to think about if you should consider hiring a financial advisor is to consider the three T's: time, technique, and temperament. Reflecting on the "three T's" means determining if you have the following[24]:

1. **Time:** Do you have the time, patience, and interest in educating yourself about investments, the market, and personal finance topics?

2. **Technique:** Do you have the technique, or technical knowledge, to understand how to avoid mistakes and leverage the best financial strategies?

3. **Temperament:** Do you have the temperament to make wise financial decisions without outside advice or counsel? Can you make investing decisions without letting your emotions drive your decision making?

If you feel you are lacking in the three T's, then you should absolutely consider hiring a financial advisor to manage your 401(k) account. However, if you have an interest in the topic of personal finance and you have the time to invest in researching your financial decisions and you feel confident in your technical understanding, you might very well be fine without seeking outside help. The main goal is to make sure you are handling your 401(k) account responsibly.

Use the SDBA so you can be a 401(k) millionaire.

Lesson #8: Side-step using a newsletter or web site for trading instructions.

There is no shortage of people and companies trying to get your attention to help manage your 401(k) account. Many of these services charge a monthly or annual subscription fee. You want to do your due diligence before you engage with one of these services and make sure you ask these important questions before you subscribe to any service:

1. **Are they an investment fiduciary?**

   Very few investors know the importance of selecting a fiduciary for their financial wellness. A fiduciary (we often use the generic term, "financial advisor") holds a legal and ethical relationship of trust with you, and they have a legal obligation to prudently take care of your money or assets. In this context a financial advisor may be a registered investment advisor (RIA), a FINRA-administered Series 65 licensed investment advisor representative (IAR), or the trust department of a bank.

   When a financial advisor has a fiduciary duty to you, they must act in a way that will financially benefit you. The financial advisor who has a fiduciary duty is called *the fiduciary*, and to whomever the duty is owed is called the principal or the beneficiary. If the fiduciary breaches their responsibilities to you, they would need to account for their ill-gotten profit, and you are entitled to damages. Financial advisors who are fiduciaries hold a relationship of trust by which they must abide. Fiduciary duty is the ethical obligation to act solely in your best interest.

   Fiduciary commitment eliminates conflict of interest concerns and makes their advice more trustworthy. Fiduciaries must:

   - Put your best interests before their own, seeking the best prices and terms.
   - Act in good faith and provide all relevant facts to you.
   - Avoid conflicts of interest and disclose any potential conflicts of interest to you.
   - Do their best to ensure the advice they provide you is accurate and thorough.
   - Avoid using your assets to benefit themselves, such as purchasing securities for their own account before buying them for you.

   Most of the investment related subscription service companies for 401(k) accounts are not fiduciaries and may not have your best interest in mind. Their sole purpose is to provide information for educational purposes only. As an example, enclosed below is a typical "term of service" as described on a web site of a retirement account investment subscription service and highlighted are some of the areas that demonstrate that they do not act in a fiduciary capacity[25]. What is most interesting is that they recommend you seek the advice of a qualified and registered securities professional before making any investment. We have highlighted parts to pay special attention to.

   We are a publisher. We provide the Services for informational and educational purposes. You understand that the views expressed in the Services are the authors' own opinions. You understand that no content published as part of the Services constitutes a recommendation that any particular investment, security, portfolio of securities, transaction or investment strategy is suitable for any *specific person. You further understand that none of the creators or providers of our Services will advise you personally concerning the nature, potential, value or suitability of any particular investment, security, portfolio of securities, transaction, investment strategy or other matter. Accordingly, do not attempt to contact them seeking personalized investment advice, which they cannot provide. To the extent any of the content published as part of the Services may be deemed to be investment advice, such information is impersonal and not tailored to the investment needs of any specific person.*

Past performance, whether actual or indicated by historical tests of strategies, is no guarantee of future performance or success. You are responsible for your own investment research and decisions and should seek the advice of a qualified and registered securities professional before making any investment. Investing involves a substantial amount of risk, and the securities in which you invest may be volatile and may depreciate rapidly.

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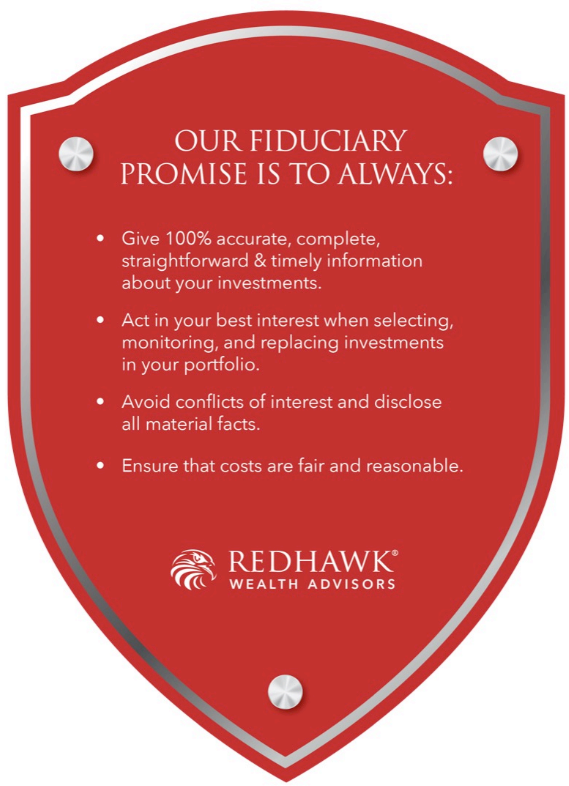
Source: TSP Folio

So why would you use their investment suggestions for your 401(k) account if they don't take any responsibility for your account? You need to work with a fiduciary that is contractually obligated to put your best interests first and foremost. Redhawk is a registered investment advisor (RIA) and acts in a fiduciary capacity when managing individual's 401(k) accounts. We have developed key principles to follow when serving as a fiduciary, calling these principles the Fiduciary Promise. To the right we show the Fiduciary Promise principles which represents the four elements that we promise to provide to you.



Source: Redhawk Wealth Advisors, Inc.

2. **Are they registered with the Securities Exchange Commission as an RIA?**
   An RIA is a business entity that is registered with the Securities Exchange Commission (SEC) and has been approved by the SEC or the state(s) in which the RIA operates.

   An RIA firm is represented by investment advisor representatives (IAR or IARs), who are commonly called financial advisors and who have met the licensing or examination requirements enforced by the regulatory body overseeing the RIA firm. The primary responsibility of an IAR is to provide investment related advice. According to regulations, IARs can only offer advice on topics in which they have passed the appropriate examinations. An IAR must register with an RIA firm and receive compensation by charging a fee.

   In most states, IARs are required to pass the Series 65 exam. In addition to passing the appropriate exam, an IAR must be registered with the proper state authorities. To expand their knowledge of financial products and principles, many IARs hold either the Certified Financial Planner (CFP), Accredited Investment Fiduciary (AIF), or Chartered Financial Analyst (CFA) designations.

   As fiduciaries regulated under the Investment Advisers Act of 1940, RIAs are held by law to the highest standard of responsibility to you, therefore upholding them to always act in your best interest. This encourages a unique level of personalized service not always found in investor-financial advisor relationships.

3. **Do they manage real money or provide information for educational purposes?**
   There is an enormous difference in managing real money in a real 401(k) account for a real person versus providing information for that person to act on. Many of the investment subscriptions tout superb investment performance and results over extended periods of time. Many of these web sites and newsletters use back tested or hypothetical performance. While it may be enticing when you see these results, you should also proceed with caution.

   If the company that publishes the investment suggestions is not registered as an RIA, they are not held to any standards as to how they calculate or show investment performance. They can literally show anything because they are not regulated by the SEC.

   Hypothetical performance data refers to performance data that is not the performance of actual client portfolios[26]. It is also sometimes referred to as simulated performance data. There are different types of hypothetical performance data, including back-tested performance data and model performance data. These have many flaws, and it does not reflect real performance that can be relied upon.

   Performance results generated from back-tested models draw increased regulatory scrutiny and pose serious compliance risks because investors have no guarantee that the investment manager used the suggestions/signals generated by these methods in a real-time basis, and such results do not represent actual performance data[27].

Several critical elements are excluded when calculating a hypothetical return:

- The results do not represent the results of actual trading using client assets but were achieved by means of the retroactive application of a model that was designed with the benefit of hindsight.

- The back-tested performance does not reflect the deduction of trading fees, buy and sell spreads, or other expenses.

- The results assume the transactions were processed at the time the signals were communicated to the participant and do not consider normal trading risk and timing to execute the trades. This timing can have substantial differences during market volatility when prices are moving extremely fast.

There is only one way to ensure that the performance shown is accurate and a fair representation of the performance achieved and that is if the investment manager follows the Global Investment Performance Standards (GIPS)[28]. GIPS outlines a set of voluntary standards used by investment managers throughout the world to ensure the full disclosure and fair representation of their investment performance. The goal of the standards is to make it possible for investors to compare one firm's performance against that of another firm. The Global Investment Performance Standards were created by the CFA Institute, a global association for investment management professionals, and are governed by the GIPS Executive Committee.

So how can you trust the investment performance that these subscription services publish? You can't!

Work with a financial advisor that's a fiduciary so you can be a 401(k) millionaire.

Lesson #9: Steer clear from severe market downturns.

Do you want your 401(k) account to do well in a bull market, when prices are rising or are expected to rise? Do you want your 401(k) account to go defensive and preserve capital in a bear market, when a market experiences prolonged price declines? To answer these questions, let's look at two distinct asset allocation strategies:

Strategic asset allocation.

Strategic asset allocation is a target allocation of the funds available in your 401(k) plan you might expect to have in place for an extended period of time, typically called a "buy-and-hold" approach. For example, you might have 60% of your 401(k) account balance in a S&P 500 index fund and 40% in a U.S. aggregate bond Index Fund. This target allocation might be expected to remain the same and you would have to re-balance your account back to the original allocation because differing returns in each fund would change the initial 60/40 allocation over time. Strategic asset allocation looks more at the overall risk objective of your 401(k) account, and therefore takes a long-term view. Under this type of strategy your assets are always allocated in the same manner and always invested in the market.

Traditional buy-and-hold asset allocation strategies, such as the common 60% in equities and 40% in bonds portfolio, were originally built for large institutions that have "infinite" time horizons like pension plans and endowments. However, most investors don't have an infinite time horizon. In fact, dramatic or large drawdowns in investments can have far-reaching consequences. While institutions can continue to hold their positions during market downturns and may be able to contribute more capital, you may be reliant on withdrawals from your 401(k) account to support your lifestyle. A loss outside your risk tolerance may mean an impactful change to your financial plan.

Tactical asset allocation.

Tactical asset allocation is an investment strategy where you would look for investment opportunities in the market. Tactical asset allocation might be that within the equity part of your 401(k) account, you may have a mix of large-cap, foreign, technology sector, and real-estate. funds. You are invested in a technology index fund because the technology sector is a better investment opportunity right now. When small-cap companies look more attractive, you might put more money into a small-cap index fund and allocate less to the large-cap index fund. Tactical asset allocation gives you the opportunity to be invested in the top performing funds available in your 401(k) plan.

Tactical asset allocation allows you to move into and out of certain areas of the market. Under this dynamic or active type of strategy, your assets are in growth mode when the market is doing well and go into defensive mode when the market is not doing well. Let's take a closer look at tactical asset allocation.

Let's assume that tactical asset allocation requires a lot more attention and work and you have assigned this role to the financial advisor we spoke about earlier. Tactical asset allocation is an active management portfolio strategy that shifts the percentage of assets held in various 401(k) funds to take advantage of momentum in certain 401(k) funds. This strategy allows you to create extra value by leveraging certain situations in the marketplace. Most tactical asset allocation strategies use a quantitative investment model to expose the imbalances among different asset classes.

Performance is an uncontrollable variable, yet the industry always focuses on backward-looking historical performance and track records. Unfortunately, you can never have the performance that already occurred. For most investors, when actual performance differs from their expectations based on past returns, they often make emotion-driven decisions such as chasing returns at market highs or selling in fear near market bottoms. Instead of focusing on the past, our approach is to manage your 401(k) account based on drawdown risk. Maximum drawdown risk is a variable that can be effectively managed.

Risk-Guard™ – where our defense is your offense.
"Risk-Guard™," is a set of algorithms and an established process to determine when your 401(k) account should be in "risk on" mode, meaning that it is in growth orientated equity index funds, or it is in "risk off" mode and invested in defensive funds such as the stable value or money market fund.

The underlying premise of Risk-Guard™ is that up-trending markets tend to have lower volatility and that is when you want to stay invested for as long as possible. Conversely, down-trending markets tend to have higher volatility and you want to go defensive to preserve capital.

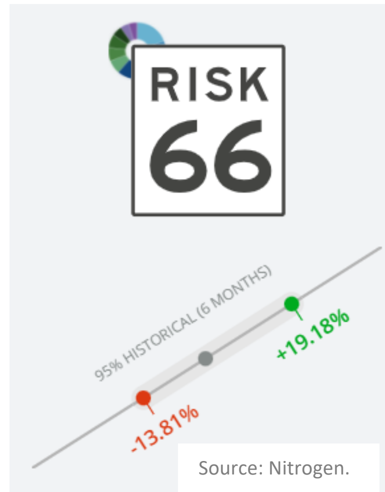
It is important to note that our Risk-Guard™ process is not trying to time the market and pick market tops or bottoms or change with every 5-10% correction. Most strategies that try to pull this off end up over-trading and under-delivering. Risk-Guard™ is set up to avoid a severe loss like what happened in 2020 when the S&P 500 dropped almost 35% due to COVID-19. You can never time these moves perfectly but the goal of Risk-Guard™ is to avoid a substantial part of a huge, prolonged drawdown.

Drawdowns are the most problematic risk for your 401(k) account. Put a unique way, the most important risk to you is the loss of capital, which is measured by peak-to-trough drawdown (from when the market reached its highest to when it reached its lowest point). Managing drawdown within predefined limits that you can understand will keep you on track toward your financial goals.

Our 401(k) portfolios are custom built based on the funds available in your plan using risk-tolerance objectives that are designed to perform within drawdown guidelines. Our stated drawdown risk objectives help you understand when a portfolio is performing within guidelines to stay on track to meet your long-term financial goals. Our approach is unique as it involves re-engineering an asset allocation portfolio and relabeling its components based on risk from a quantitative perspective. The result is an intelligent portfolio, dynamically managed to fit your needs.

Investment returns are not linear. While any portfolio may have an average annual historical return, it is important to note that every year is different. When a portfolio is on its intended track, the expectation for any rolling time frame (let's say the next six months), will have a range of returns from negative to positive. You should recognize that this is normal and that risk-managed portfolios are engineered to operate within an expected range.

Given the fact that no one can predict future returns, it is important to understand that our 401(k) portfolios have a range of expected return outcomes. For example, the graphic to the right, is one of our 401(k) moderate portfolios that has a risk score of 66 and the expected return over the next six months is between -13.81% to 19.18%.



Risk-Guard™ is a tactical asset allocation solution that we believe is an effective means to limit the drawdown risk in your 401(k) account. The Risk-Guard™ philosophy prioritizes managing drawdown risk as a key component for success and has been designed to have two distinct advantages over strategic asset allocation by:

1. *Managing Drawdowns:* by going to "risk off" mode during severe bear markets. This will most likely be the stable value or money market fund.

2. *Range of Expected Returns:* by going to "risk on" mode when markets are moving higher. This will include equity funds that have momentum and are trending with higher returns. It is important that you understand that the performance of our 401(k) portfolios is designed to have expected returns based on the risk number of each portfolio. The objectives of our 401(k) portfolios are not designed to pursue returns of the S&P 500 or other major indexes; it is to pursue returns that are in the range of expected returns based on the risk of the portfolio.

By managing drawdowns and overseeing the range of expected returns in your 401(k) account, we can smooth out the otherwise bumpy ride of the market.

The pandemic that changed everything.
So, let's see how Risk-Guard™ operated during 2020 when COVID-19 rocked the markets[29]. As a company founded just prior to the 2008 global financial crisis, Redhawk knows market turbulence is an inevitable part of a long-term investment strategy. We also understand that the emotional wear and tear of rocky markets can make it even more challenging to stomach.

As you remember, in just a few short months, COVID-19 wreaked havoc on savings and investing for retirement:

- Non-essential businesses were forced to shut down and employees were either furloughed, laid-off, or worked from home.

- People that were unemployed could not contribute to their 401(k) plan or receive company matching contributions.

- People that lived from paycheck to paycheck did not have any extra money put away to weather the storm.

- People had to take distributions or loans from their 401(k) plan, which lowered their potential returns overall.

- Assets significantly declined in personal and 401(k) accounts.

Also, many large employers decided to suspend matching contributions to 401(k) plans including Amtrak, Marriott, Macy's, La-Z-Boy, Expedia, Hilton, and Best-Buy. As of late April 2020, 12% of 816 companies representing 12 million workers had suspended matching contributions, according to a Willis Towers Watson survey. An additional 23% said they would or may halt them later in the year. Some workers were forced into retirement and started claiming Social Security benefits earlier than anticipated. When people claim Social Security before their "Full Retirement Age," they receive less in payments than if they had waited.

Between March 4 and March 11, 2020, the S&P 500 index dropped by 12%, landing in bear market territory. On March 12, 2020, the S&P 500 plunged 9.5%, its steepest one-day fall since 1987. Stock markets plunged in the wake of the coronavirus pandemic, with investors fearing that its spread would destroy economic growth. Supported by figures that suggested cases were leveling off in China, investors were initially optimistic about the virus being contained. However, confidence in the market started to wane as the number of cases increased worldwide. Investors were deterred from buying stocks, and this was reflected in the initial downward spiral of the markets. Remember, this is when the S&P 500 lost almost 35% in just a few weeks.

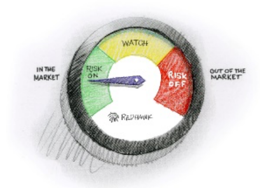
Thankfully, the Federal Reserve (the Fed) acted swiftly and began to provide liquidity into the market and started to purchase Treasuries. In a matter of three months, the markets were back to where they started. This was the quickest rebound in the history of the markets.

The markets were very volatile during this period with the volatility index (VIX) ranging from 25.03 to 82.69 (the VIX is an implied volatility value calculated using specific S&P 500 Index option contracts and is used as a sentiment indicator). An index option contract gives the buyer the right, but not the obligation, to buy or sell an underlying index at a strike price on an expiration date. Therefore, a climbing VIX reflects bearish conditions in the S&P 500 and typically the markets. The VIX reached its highest level on 3/16/2020 when it hit 82.69. This was the highest reading for the VIX since 11/20/2008 when it closed at 80.86, which was at its highest during the global financial crisis.

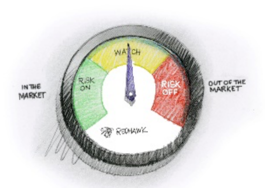
On June 8, 2020, the S&P 500 climbed back above where it began the year before the pandemic brought the United States economy to a standstill. After a few weeks of volatility when the market dropped almost 35%, the S&P 500 became resistant to bad news. On April 29, 2020, when the Commerce Department announced that the economy shrank at a nearly 5% annual rate (its fastest drop since the 2008 recession) stocks rose 2.7%. When the Bureau of Labor Statistics published what was the worst employment report on record which showed that more than 20 million jobs were lost in April 2020 driving unemployment to 14.7% (the highest since the Great Depression), stocks rose 1.7%.

How did Risk-Guard™ perform during the pandemic?

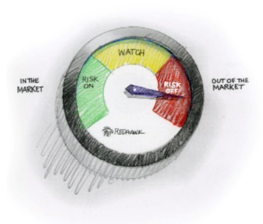
Risk-Guard™ has three levels of algorithms that are used when managing risk for your 401(k) account. These three phases tell us whether we are fully invested in the market or are in a defensive position.



Risk On – when the market is relatively calm. Your account is fully invested in the market with equity exposure and fixed income funds based on your risk score.



Risk Watch – when the market is experiencing volatility and uncertainty. The "risk watch" signal has tripped, but not enough to go into full risk off mode. Your account is still fully invested in the markets, but there are things happening in the market that are concerning, which make the algorithms extremely cautious.



Risk Off – when the market is experiencing heightened volatility. The algorithms fully kick in and the allocation in your 401(k) account will shift to defensive mode and most likely invest in a stable value or money market fund. The algorithms only move to risk off mode when they anticipate a significant market downturn.

As you can see in the following diagram, the S&P 500 reached its all-time high on 2/19/2020. Then on 3/23/2020, the S&P 500 reached its lowest point during the pandemic. So, let's see how Risk-Guard™ behaved in the general market:

- On 2/24/2020, the algorithms went to "risk off" and exited equities and went into treasuries.

- On 3/23/2020, the S&P 500 went down 30.64% from when the algorithms went to “risk off.”

- On 4/13/2020, the algorithms went to “risk on” and sold the positions in treasuries and invested back into equities. Accounts only experienced a 14.39% loss versus the 30.64% loss of the S&P 500.

In summary, Risk-Guard™ did its job and avoided most of the downturn!

S&P 500
1/1/2020 – 6/11/2020

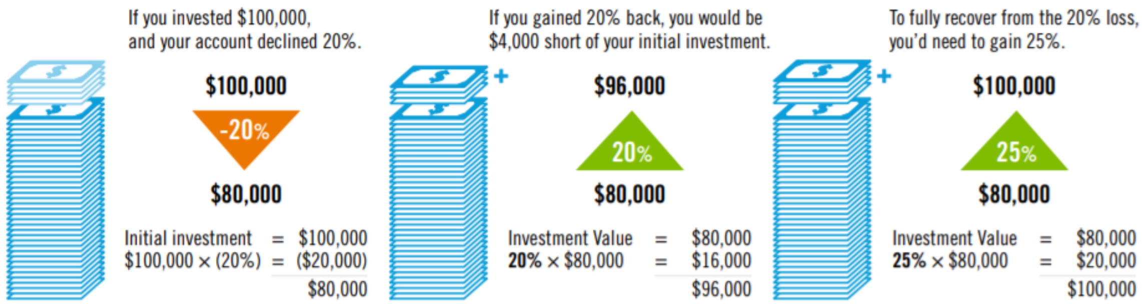
Source: Redhawk Wealth Advisors, Inc.

Remember, the markets are always forward-looking, and discounts or rewards are based on anticipated headwinds and tailwinds. The markets become extremely volatile when uncertainty exists and is difficult to measure. During the pandemic, stocks swung wildly often suggesting a disconnect with the terrible economic and public health news of the moment. A steady hand is necessary to navigate troubled markets, and with Risk-Guard™ our algorithms continue to monitor the market and err on the side of caution via downside protection.

Why is Risk-Guard™ focused on drawdown?

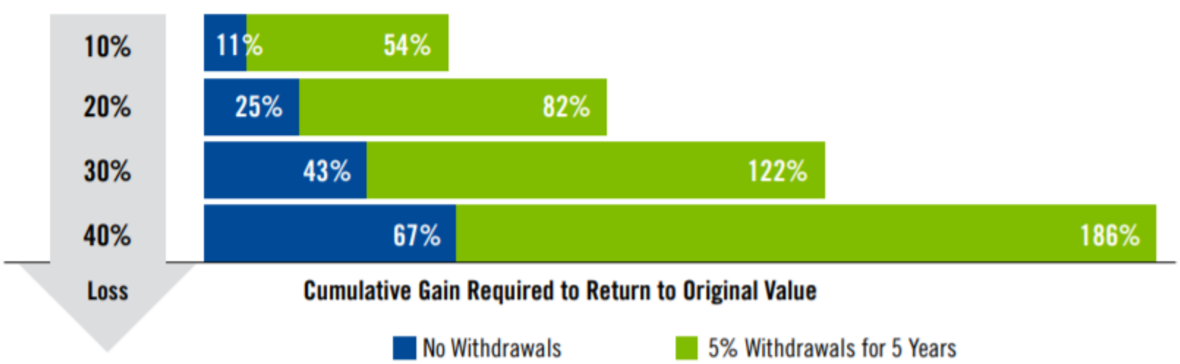
It is basic math. You may retire after a lifetime of hard work just as the market falls. Your 401(k) account balance would therefore be negatively impacted, and the potential effect could come as a shock. We talked about this earlier in this guide when discussing sequence of returns risk.

Losses have more of an impact than gains.
For example, if your $100,000 401(k) account lost 20%, it would require a 25% gain to make up for the loss (see the following chart)[30]. After a loss, it takes a greater gain to return to your original value.



Source: Franklin Templeton

Mathematical catch-up game.
Let's look at some more example (see the chart below). If your 401(k) account lost 40%, it would require a 67% gain, without taking any withdrawals, to return to the original value[30]. What's even more worrisome is that if you were in retirement and taking 5% out of your 401(k) account for living expenses, it would take a gain of 186% to make up for the sizeable loss! Like we said earlier, it's basic math and it shows how important it is to avoid large downturns in the market.



Source: Franklin Templeton

It would be bad luck that as you begin retirement and start withdrawing assets from your 401(k) account for day-to-day living expenses the value of your account decreases significantly. Too many 401(k) participants fail to realize that it is not only about the losses in one's account, but also the loss of time in which to recover. What the cold-hearted math of stock market losses makes painfully clear is that you need to protect your 401(k) account against big losses.

Avoid significant market drawdowns so you can become 401(k) millionaire.

Lesson #10: Have a holistic financial plan that includes your 401(k) account.

Often, when people enroll in their 401(k) plan, it is done without thinking about how the 401(k) account will complement (or complicate) other retirement accounts and retirement income sources, such as Social Security benefits, pensions, IRAs, deferred compensation, non-qualified accounts, bank accounts, etc.

Enrolling in a 401(k) plan is great, but don't just enroll in it and settle for the "default settings." Meet with a financial advisor and qualified tax professional to see what forward-looking tax planning and advanced retirement income planning options might be in your best interest. Rather than just enrolling in the 401(k) plan and forgetting about it until you are near retirement, find qualified professionals, even if it is just for one meeting, because you do not know what you do not know.

A financial advisor associated with Redhawk can help you evaluate your 401(k) plan fund choices within the context of a holistic, tailored retirement plan. How much will you need to save for a comfortable retirement? Will your 401(k) plan fund choices, and your contribution percentage, get you to that goal?

There are many benefits to hiring a financial advisor. A fiduciary-focused financial advisor can help you figure out your savings strategies, retirement options, and overall retirement plan. To be sure, a professional opinion can be especially helpful at the beginning of the retirement planning process, when you are trying to set goals. Most importantly, a financial advisor will keep you focused and disciplined toward achieving your goals. There are many financial advisors that offer good advice.

Source: Redhawk Wealth Advisors, Inc.

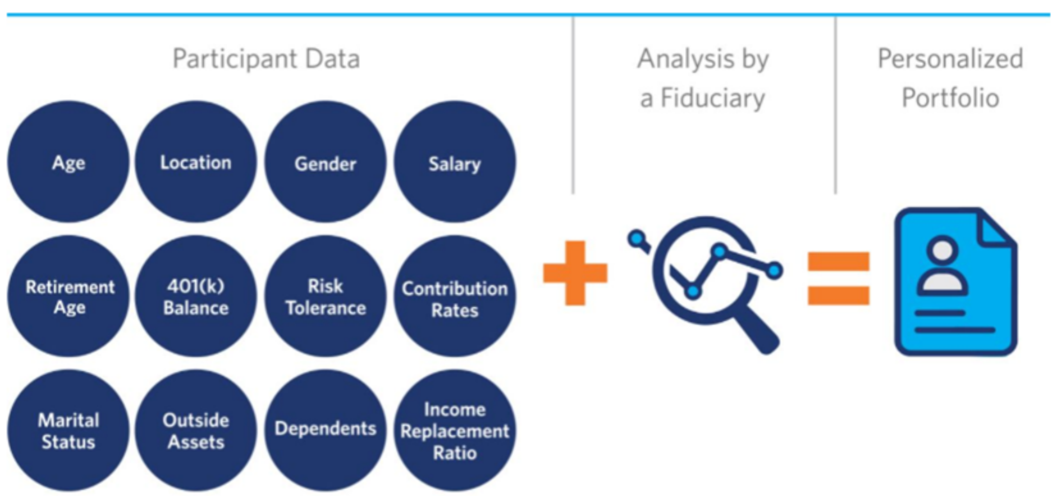
Another benefit of hiring a financial advisor is that they can save you time. Some financial advisors will actively manage your 401(k) account, removing a huge burden from your evolving list of decisions. While you will need to periodically meet with your financial advisor to talk about your goals and where your 401(k) account stands, you won't be responsible for things like periodically rebalancing your accounts, making tactical asset allocation changes, staying on top of market conditions, and assessing various 401(k) investment options. This is the job of your financial advisor.

If you do hire a financial advisor, make sure that they are a fiduciary. Many advisors say that they are fiduciaries, but many do not function in that capacity. According to rules set by the Securities and Exchange Commission (SEC) and the Investment Advisers Act of 1940, fiduciaries have five primary responsibilities:

1. Put clients' interests first.
2. Act with the utmost good faith.
3. Provide full and fair disclosure of all material facts.
4. Do not mislead clients.
5. Expose all conflicts of interest.

With the wealth of information at your fingertips, you may think you understand the markets enough to invest for yourself or that getting a financial advisor to manage your 401(k) account is too expensive. However, investing is challenging, to say the least, and emotional responses in periods of volatility can undo years of past or potential future success.

The services a financial advisor provides go well beyond simply selecting the best 401(k) plan funds for you (see the chart below). Financial advisors generally coordinate with a team of professionals and can assist you in a holistic financial plan from budgeting, cash management, wealth planning, investment management, retirement, and estate planning, as well as guidance on taxation (working with a tax professional as part of the team) to help you work toward your goals.



Source: Redhawk

Financial advisors can help you avoid common mistakes.
It is well-known that human behavior leads to decisions primarily based on emotion; then the decisions are rationalized using science. Financial advisors can help you avoid common mistakes caused by human behavior by staying informed and remaining objective when making financial decisions on your behalf. People often let emotions and other tendencies get in the way of their

financial goals. Ultimately, letting your emotions guide your investing decisions will cost you money.

So how can emotions get in the way of achieving your goals? Studies have proven that inexperienced and unknowledgeable investors have a strong tendency to buy high and sell low (commonly referred to as *emotional investing*). Typically, when the market is going up the every-day investor wants to buy and when the market is going down, they want to sell. This happens because a positive perception of an investment or market can lead investors to feel they have a higher return at a lower risk than they do, while a negative feeling can lead to predictions of lower returns at a higher risk.

Taking your investment cues based on the fears and goals of others, such as family, friends, co-workers, social media, or news, is called s*ocial investing*. Engaging in this behavior can influence you to make decisions based on the emotions of others rather than your own goals. Additionally, allowing behavior patterns to influence your decisions is called e*go investing.* This approach may also make you lose sight of your goals. Many investors fall victim to these behaviors and don't heed their own advice. That is where a financial advisor comes in handy, by determining how much cash you will need to provide for your lifestyle against potential market downturns. At the same time, they can help you take advantage of investment opportunities with the rest of your wealth.

The results of research done by Dalbar Inc.[31], a company that studies investor behavior and analyzes investor market returns, consistently show that the average investor earns below-average returns. In Dalbar’s 2017 study, they found that investors’ biggest behavioral problems are the herding effect and loss aversion. The study showed just how poorly investors perform relative to market benchmarks over time and the reasons for that under-performance.

The study also proves that a do-it-yourself (DIY) investor can’t beat an index over the long haul. Indexes do not account for the effect of taxes, trading costs, and fees over time. There are also internal dynamics of an index that affect long-term performance that do not apply to an actual portfolio, such as share buybacks and market-cap valuation. However, even the problems listed above do not fully account for investors’ under-performance over time. The key findings of the study show that:

- The average equity mutual fund investor under-performed the S&P 500 by a margin of 4.7%. While the broader market made gains of 11.96%, the average equity investor’s return was only 7.26% (see the numbers circled in red on the following graph).

- The average fixed income mutual fund investor under-performed the Bloomberg Barclays Aggregate Bond Index by a margin of 1.42%. The broader bond market realized a return of 2.65%, while the average fixed income fund investor’s return was 1.23% (see the numbers circled in green on the following graph).

- The 20-year annualized S&P 500 return was 7.68%, and the average equity fund investor's return was only 4.79%, a gap of 2.89% (see the numbers circled in blue on the following graph).

	Investor Returns[1]					
	Equity Funds	Asset Allocation Funds	Fixed Income Funds	Inflation	S&P 500	Bloomberg Barclays Aggregate Bond Index[2]
30 Year	3.98%	1.85%	0.57%	2.65%	10.16%	6.34%
20 Year	4.79%	2.29%	0.48%	2.13%	7.68%	5.29%
10 Year	3.64%	1.78%	0.40%	1.83%	6.95%	4.34%
5 Year	9.83%	4.85%	0.05%	1.40%	14.66%	2.23%
3 Year	3.42%	1.45%	-0.23%	1.25%	8.87%	3.03%
1 Year	7.26%	5.48%	1.23%	2.07%	11.96%	2.65%

Source: Dalbar, 2017.
[1] Returns are for the period ended December 30, 2016. Average equity investor, average bond Investor, and average asset allocation investor performance results are calculated using data supplied by the Investment Company Institute. Investor returns are represented by the change in total mutual fund assets after excluding sales, redemptions, and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses, and any other costs. After calculating investor returns in dollar terms, two percentages are calculated for the period examined: Total investor return rate and annualized investor return rate. Total return rate is determined by calculating the investor return dollars as a percentage of the net of the sales, redemptions, and exchanges for each period.
[2] Amended May, 1 2017.

In summary, look for a financial advisor that is knowledgeable in 401(k) plans and will work together with you (and their team) to build a retirement financial plan that is based upon your specific needs, wants, and goals. A financial advisor can be important in helping you manage your 401(k) account and can bring value to you by:

- Steering you away from making behavioral mistakes like chasing performance.
- Taking advantage of certain asset classes that are in favor.
- Monitoring the markets to manage downside risks.
- Establishing an objective rebalancing strategy for your 401(k) account.
- Building a complete financial plan that saves you time and keeps you on course.
- Reducing your tax burden.

Have a financial advisor develop a holistic financial plan so you can be a 401(k) millionaire.

Lesson #11: Start today and don't wait.

At this point, you are probably eager to put this guide to work and start your 401(k) millionaire journey. Acting is certainly not an easy step, and it will come with many trials and tribulations. The key to success is to just get started. Start today and don't wait. It's never too late to work toward those million dollars in your 401(k).

Implementing a plan is the step where the rubber meets the road. During the implementation don't lose momentum, as it can be very tempting to let things slide. I cannot stress enough how important it is to find the right financial advisor first, and they will keep your best interests front and center while keeping you focused.

Your financial advisor will go over their planning process, ensure that your vision is considered, and modify their implementation process to fit your needs. I personally find it much easier to break down what is needed into manageable chunks. The key is to buckle down and get it done in the way that works best for you.

We believe the following three steps are the most efficient ways for you to become a 401(k) millionaire:

Step 1. Find a financial advisor who is a fiduciary.

This is the most crucial step because following it will make everything else in the process easier. You want to make sure the financial advisor is a good fit as this will create an ongoing relationship and help your financial advisor to help maintain your financial goals throughout the partnership. Keep in mind that it is critical the financial advisor acts in a fiduciary capacity and has your best interest in mind, not their own. You can find a financial advisor that is with Redhawk and is located near you by visiting www.redhawkwa.com and clicking on "Find an Advisor." It is simple and easy, and all our financial advisors are committed to following our Fiduciary Promise.

The COVID-19 pandemic fostered a new way of working with a financial advisor that may not be located near you. Collaboration technologies, such as Zoom™, have allowed investors to work with financial advisors across the country. Many investors like this new way of interacting because they don't have to drive to an office to meet.

Step 2: Develop a comprehensive financial plan.

Using your goals, financial situation, and financial data, your financial advisor will create a personalized and comprehensive plan. They will also help you implement this plan using Risk-Guard™, applications, and financial planning tools.

This plan will also include your investment policy statement, investment philosophy, and a customized portfolio for your 401(k) account that will give you the best opportunity to achieve your goals. During this step, if you need estate planning, your financial advisor will coordinate with an attorney to make sure it gets done. If you need insurance, they will work with insurance experts to make sure you get the right solution. Your financial advisor will ensure you have a solid 401(k) account that is diversified and professionally managed. This is your road map to a better financial outcome.

Step 3: Monitor and adjust.

The best financial plan is worthless if it isn't monitored correctly. As time goes by, circumstances change, and so should your plan. Today's goal may not be the same as tomorrow's dream. That is why it is important to review your goals and objectives on a regular basis with planning reviews and ongoing monitoring. As your life unfolds, new things become more important to you. Remember to be reasonable with yourself and don't try and tackle the whole thing in one go. This is a process that you will follow for your lifetime.

With time, effort, and partnering with a financial advisor, you can reach your goals and develop peace of mind. While it's easy to get bogged down in the process, stay focused on your end goals — the *why* of what you're doing. Your financial advisor will keep those goals front and center to make this process work for you.

Get started now so you can be a 401(k) millionaire!

Putting it all together to be a 401(k) millionaire.

To bring it all together, I want to show you mathematically how you can become a 401(k) millionaire.

Important Note: If you are of the age and means right now where the 401(k) millionaire milestone seems way out of reach, all hope is not lost. We will be publishing more about the Risk-Guard™ process that helps people manage "through retirement."

For this guide, we will stick to the theme we started with. So, let's look at several hypothetical examples of how you can make the most out of your 401(k) account!

Example A – Starting at age 25 and retiring at age 65:

- Age when joining the plan: 25
- Age at retirement: 65
- Starting annual compensation: $50,000
- Annual % increase in compensation: 2%
- Annual pre-tax contribution: 4%
- Annual employer match: 4%
- Core funds average annual performance (ages 25-49): 10%
- Core funds average annual performance (ages 50-65): 6%
- SDBA average annual performance: 18%
- Starts to use the SDBA: age 36

When running this option, we assumed that an aggressive portfolio was used for the first 24 years (ages 25-49) and then a moderate portfolio was used for the remaining 15 years until retirement.

Example A - 4% EE Contribution and 4% ER Match								
Age	Compensation	Annual Contribution	Employer Match	Total Contribution	Total Account Balance With Core Funds	Account Balance in Core Funds	Account Balance - Technology Sector in SDBA	Total Account Balance in Core Funds and SDBA
25	$50,000	$2,000	$2,000	$4,000	$4,200	$4,200		$4,200
26	$51,000	$2,040	$2,040	$4,080	$8,904	$8,904		$8,904
27	$52,020	$2,081	$2,081	$4,162	$14,164	$14,164		$14,164
28	$53,060	$2,122	$2,122	$4,245	$20,038	$20,038		$20,038
29	$54,122	$2,165	$2,165	$4,330	$26,588	$26,588		$26,588
30	$55,204	$2,208	$2,208	$4,416	$33,883	$33,883		$33,883
31	$56,308	$2,252	$2,252	$4,505	$42,002	$42,002		$42,002
32	$57,434	$2,297	$2,297	$4,595	$51,026	$51,026		$51,026
33	$58,583	$2,343	$2,343	$4,687	$61,050	$61,050		$61,050
34	$59,755	$2,390	$2,390	$4,780	$72,174	$72,174		$72,174
35	$60,950	$2,438	$2,438	$4,876	$84,511	$84,511		$84,511
36	$62,169	$2,487	$2,487	$4,973	$98,185	$73,185	$25,000	$98,185
37	$63,412	$2,536	$2,536	$5,073	$113,330	$85,830	$29,500	$115,330
38	$64,680	$2,587	$2,587	$5,174	$130,096	$99,846	$34,810	$134,656
39	$65,974	$2,639	$2,639	$5,278	$148,647	$115,372	$41,076	$156,448
40	$67,293	$2,692	$2,692	$5,383	$169,165	$132,562	$48,469	$181,032
41	$68,639	$2,746	$2,746	$5,491	$191,847	$151,584	$57,194	$208,778
42	$70,012	$2,800	$2,800	$5,601	$216,913	$172,624	$67,489	$240,113
43	$71,412	$2,856	$2,856	$5,713	$244,603	$195,885	$79,637	$275,522
44	$72,841	$2,914	$2,914	$5,827	$275,182	$221,592	$93,971	$315,563
45	$74,297	$2,972	$2,972	$5,944	$308,941	$249,992	$110,886	$360,878
46	$75,783	$3,031	$3,031	$6,063	$346,201	$281,357	$130,846	$412,203
47	$77,299	$3,092	$3,092	$6,184	$387,314	$315,986	$154,398	$470,384
48	$78,845	$3,154	$3,154	$6,308	$432,668	$354,207	$182,190	$536,397
49	$80,422	$3,217	$3,217	$6,434	$482,690	$396,383	$214,984	$611,367
50	$82,030	$3,281	$3,281	$6,562	$518,411	$426,926	$253,681	$680,607
51	$83,671	$3,347	$3,347	$6,694	$556,410	$459,436	$299,344	$758,779
52	$85,344	$3,414	$3,414	$6,828	$596,827	$494,034	$353,226	$847,260
53	$87,051	$3,482	$3,482	$6,964	$639,810	$530,849	$416,806	$947,656
54	$88,792	$3,552	$3,552	$7,103	$685,515	$570,017	$491,831	$1,061,848
55	$90,568	$3,623	$3,623	$7,245	$734,108	$611,681	$580,361	$1,192,042
56	$92,379	$3,695	$3,695	$7,390	$785,767	$655,994	$684,826	$1,340,819
57	$94,227	$3,769	$3,769	$7,538	$840,677	$703,117	$808,095	$1,511,212
58	$96,112	$3,844	$3,844	$7,689	$899,038	$753,224	$953,552	$1,706,776
59	$98,034	$3,921	$3,921	$7,843	$961,058	$806,496	$1,125,191	$1,931,686
60	$99,994	$4,000	$4,000	$8,000	$1,026,961	$863,125	$1,327,725	$2,190,850
61	$101,994	$4,080	$4,080	$8,160	$1,096,983	$923,317	$1,566,716	$2,490,032
62	$104,034	$4,161	$4,161	$8,323	$1,171,374	$987,288	$1,848,725	$2,836,013
63	$106,115	$4,245	$4,245	$8,489	$1,250,401	$1,055,269	$2,181,495	$3,236,764
64	$108,237	$4,329	$4,329	$8,659	$1,334,343	$1,127,504	$2,574,164	$3,701,668
65	$110,402	$4,416	$4,416	$8,832	$1,423,501	$1,204,252	$3,037,514	$4,241,765
Total		**$125,220**	**$125,220**	**$250,440**	**$1,423,501**	**$1,204,252**	**$3,037,514**	**$4,241,765**

Source: Redhawk Wealth Advisors, Inc.

In this hypothetical 401(k) account scenario, the participant starts contributing at age 25 through age 65. Their annual compensation starts at $50,000 per year and increases 2% each year thereafter. In this hypothetical scenario, the participant contributes at 4% of compensation starting at age 25 and continues at the same contribution rate through age 65. The employer matching contributions is based on 4% of annual compensation. This hypothetical account scenario incorporates an annualized personal rate of return for the core funds of 10%, net of account expenses, for the age range from 25 through age 49 and participant and employer contributions for the year they are contributed have an annualized personal rate of return of 1/2 of the 10%. This hypothetical account scenario incorporates an annualized personal rate of return for the core funds of 6%, net of account expenses, for the age range from 50 through age 65 and participant and employer contributions for the year they are contributed have an annualized personal rate of return of 1/2 of the 6%. This hypothetical account scenario incorporates an annualized personal rate of return for the technology sector of 18%, which is a net return and includes all expenses associated with utilizing a self-directed brokerage window. This hypothetical account scenario does not have loans or withdrawals taken from the account. Your own account may earn more or less than this example. This information is intended to be educational and is not tailored to the investment needs of any specific investor.

Source: Redhawk Wealth Advisors, Inc.

As you can see in the chart to the right, if this participant only uses the core funds in the plan, they will reach the 401(k) millionaire status when they are age 60! What's even more compelling is that if they use the core funds in the plan and the SDBA, they will reach the 401(k) millionaire status when they are age 54!

What is most interesting is that they would only have to contribute $125,220 over their working years to reach this milestone.

This example shows you the importance of diligently contributing to the plan and letting your account balance compound year-after-year.

Example B – Starting at age 35 and retiring at age 65:

- Age when joining the plan: 35
- Age at retirement: 65
- Starting annual compensation: $50,000
- Annual % increase in compensation: 2%
- Annual pre-tax contribution: 10%
- Annual employer match: 4%
- Core funds average annual performance (ages 35-59): 10%
- Core funds average annual performance (ages 60-65): 6%
- SDBA average annual performance: 18%
- Starts to use the SDBA: age 46

When running this option, an aggressive portfolio was used for the first 24 years (ages 35-59) and then a moderate portfolio was used for the remaining 5 years until retirement.

Example B - 10% EE Contribution and 4% ER Match								
Age	Compensation	Annual Contribution	Employer Match	Total Contribution	Total Account Balance With Core Funds	Account Balance in Core Funds	Account Balance - Technology Sector in SDBA	Total Account Balance in Core Funs and SDBA
35	$50,000	$5,000	$2,000	$7,000	$7,350	$7,350		$7,350
36	$51,000	$5,100	$2,040	$7,140	$15,582	$15,582		$15,582
37	$52,020	$5,202	$2,081	$7,283	$24,787	$24,787		$24,787
38	$53,060	$5,306	$2,122	$7,428	$35,066	$35,066		$35,066
39	$54,122	$5,412	$2,165	$7,577	$46,528	$46,528		$46,528
40	$55,204	$5,520	$2,208	$7,729	$59,296	$59,296		$59,296
41	$56,308	$5,631	$2,252	$7,883	$73,503	$73,503		$73,503
42	$57,434	$5,743	$2,297	$8,041	$89,296	$89,296		$89,296
43	$58,583	$5,858	$2,343	$8,202	$106,837	$106,837		$106,837
44	$59,755	$5,975	$2,390	$8,366	$126,305	$126,305		$126,305
45	$60,950	$6,095	$2,438	$8,533	$147,895	$147,895		$147,895
46	$62,169	$6,217	$2,487	$8,704	$171,823	$146,823	$25,000	$171,823
47	$63,412	$6,341	$2,536	$8,878	$198,327	$170,827	$29,500	$200,327
48	$64,680	$6,468	$2,587	$9,055	$227,668	$197,418	$34,810	$232,228
49	$65,974	$6,597	$2,639	$9,236	$260,133	$226,858	$41,076	$267,934
50	$67,293	$6,729	$2,692	$9,421	$296,038	$259,436	$48,469	$307,905
51	$68,639	$6,864	$2,746	$9,609	$335,732	$295,470	$57,194	$352,663
52	$70,012	$7,001	$2,800	$9,802	$379,597	$335,308	$67,489	$402,797
53	$71,412	$7,141	$2,856	$9,998	$428,055	$379,337	$79,637	$458,974
54	$72,841	$7,284	$2,914	$10,198	$481,568	$427,978	$93,971	$521,949
55	$74,297	$7,430	$2,972	$10,402	$540,646	$481,697	$110,886	$592,584
56	$75,783	$7,578	$3,031	$10,610	$605,851	$541,007	$130,846	$671,853
57	$77,299	$7,730	$3,092	$10,822	$677,799	$606,471	$154,398	$760,869
58	$78,845	$7,884	$3,154	$11,038	$757,169	$678,708	$182,190	$860,898
59	$80,422	$8,042	$3,217	$11,259	$844,708	$758,401	$214,984	$973,385
60	$82,030	$8,203	$3,281	$11,484	$907,219	$815,734	$253,681	$1,069,415
61	$83,671	$8,367	$3,347	$11,714	$973,718	$876,743	$299,344	$1,176,087
62	$85,344	$8,534	$3,414	$11,948	$1,044,447	$941,655	$353,226	$1,294,880
63	$87,051	$8,705	$3,482	$12,187	$1,119,667	$1,010,707	$416,806	$1,427,513
64	$88,792	$8,879	$3,552	$12,431	$1,199,651	$1,084,153	$491,831	$1,575,984
65	$90,568	$9,057	$3,623	$12,680	$1,284,690	$1,162,262	$580,361	$1,742,623
Total		**$211,897**	**$84,759**	**$296,656**	**$1,284,690**	**$1,162,262**	**$580,361**	**$1,742,623**

Source: Redhawk Wealth Advisors, Inc.

In this hypothetical 401(k) account scenario, the participant starts contributing at age 35 through age 65. Their annual compensation starts at $50,000 per year and increases 2% each year thereafter. In this hypothetical scenario, the participant contributes at 10% of compensation starting at age 35 and continues at the same contribution rate through age 65. The employer matching contributions is based on 4% of annual compensation. This hypothetical account scenario incorporates an annualized personal rate of return for the funds of 10%, net of account expenses, for the age range from 35 through age 59 and participant and employer contributions for the year they are contributed have an annualized personal rate of return of 1/2 of the 10%. This hypothetical account scenario incorporates an annualized personal rate of return for the funds of 6%, net of account expenses, for the age range from 60 through age 65 and participant and employer contributions for the year they are contributed have an annualized personal rate of return of 1/2 of the 6%. This hypothetical account scenario incorporates an annualized

Source: Redhawk Wealth Advisors, Inc.

Because this person started contributing to their 401(k) plan later in life, they don't have as many years to save for retirement. That is why they must start contributing at a higher rate of 10% of their paycheck and investing in an aggressive portfolio until 5 years before retirement.

As you can see in the chart above, if this participant only uses the core funds in the plan, they will reach the 401(k) millionaire status when they are age 62! If they use the core funds in the plan and the SDBA, they will reach the 401(k) millionaire status when they are age 60.

They would have to contribute $211,897 over their working years to reach this milestone.

This example shows you that starting to save for retirement later in life means that you must contribute more to reach that 401(k) millionaire status.

Example C – Starting at age 45 and retiring at age 65:

- Age when joining the plan: 45
- Age at retirement: 65
- Starting annual compensation: $75,000
- Annual % increase in compensation: 2%
- Annual pre-tax contribution: 15%
- Annual employer match: 4%
- Core funds average annual performance (ages 45-65): 10%
- SDBA average annual performance: 18%
- Starts to use the SDBA: age 47

Example C - 15% EE Contribution and 4% ER Match

Age	Compensation	Annual Contribution	Employer Match	Total Contribution	Total Account Balance With Core Funds	Account Balance in Core Funds	Account Balance - Technology Sector in SDBA	Total Account Balance in Core Funs and SDBA
45	$75,000	$11,250	$3,000	$14,250	$14,963	$14,963		$14,963
46	$76,500	$11,475	$3,060	$14,535	$31,721	$15,262		$15,262
47	$78,030	$11,705	$3,121	$14,826	$50,460	$7,355	$25,000	$32,355
48	$79,591	$11,939	$3,184	$15,122	$71,384	$23,969	$29,500	$53,469
49	$81,182	$12,177	$3,247	$15,425	$94,718	$42,561	$34,810	$77,371
50	$82,806	$12,421	$3,312	$15,733	$120,710	$63,337	$41,076	$104,413
51	$84,462	$12,669	$3,378	$16,048	$149,631	$86,521	$48,469	$134,991
52	$86,151	$12,923	$3,446	$16,369	$181,781	$112,361	$57,194	$169,555
53	$87,874	$13,181	$3,515	$16,696	$217,490	$141,128	$67,489	$208,617
54	$89,632	$13,445	$3,585	$17,030	$257,121	$173,122	$79,637	$252,759
55	$91,425	$13,714	$3,657	$17,371	$301,072	$208,674	$93,971	$302,645
56	$93,253	$13,988	$3,730	$17,718	$349,783	$248,145	$110,886	$359,031
57	$95,118	$14,268	$3,805	$18,072	$403,738	$291,935	$130,846	$422,781
58	$97,020	$14,553	$3,881	$18,434	$463,467	$340,485	$154,398	$494,883
59	$98,961	$14,844	$3,958	$18,803	$529,557	$394,276	$182,190	$576,466
60	$100,940	$15,141	$4,038	$19,179	$602,650	$429,609	$214,984	$644,593
61	$102,959	$15,444	$4,118	$19,562	$683,455	$466,747	$253,681	$720,428
62	$105,018	$15,753	$4,201	$19,953	$772,752	$505,769	$299,344	$805,113
63	$107,118	$16,068	$4,285	$20,353	$871,397	$546,759	$353,226	$899,985
64	$109,261	$16,389	$4,370	$20,760	$980,334	$589,805	$416,806	$1,006,611
65	$111,446	$16,717	$4,458	$21,175	$1,100,601	$634,995	$491,831	$1,126,826
Total		**$290,062**	**$77,350**	**$367,412**	**$1,100,601**	**$634,995**	**$491,831**	**$1,126,826**

Source: Redhawk Wealth Advisors, Inc.
In this hypothetical TSP account scenario, the participant starts contributing at age 40 through age 62. Their annual compensation starts at $75,000 per year and increases 2% each year thereafter. In this hypothetical scenario, the participant contributes at 14% of compensation through age 62. The agency matching contributions is based on 4% of annual compensation. This hypothetical account scenario incorporates an annualized personal rate of return for the TSP core funds of 10.64%, net of TSP account expenses. For the year they are contributing, the contribution amount has an annualized personal rate of return of 1/2 of the 10.64%. This hypothetical account scenario incorporates an annualized personal rate of return for the technology sector of 18.16%, which is a net return and includes all expenses associated with utilizing the TSP Mutual Fund Window. This hypothetical account scenario does not have loans or withdrawals taken from the account. Your own account may earn more or less than this example. This information is intended to be educational and is not tailored to the investment needs of any specific

Source: Redhawk Wealth Advisors, Inc.

When running this option, an aggressive portfolio was used for the entire 20 years (ages 45-65) since they started contributing later and only had 20 years to save for retirement.

Because this person started contributing to their plan at age 45, they don't have as many years to save for retirement. That is why they must start contributing 15% of their paycheck and investing in an aggressive portfolio for the entire 20 years before retirement.

As you can see in the chart above, if this participant only uses the core funds in the plan, they will reach the 401(k) millionaire status when they are age 65! If they use the core funds in the plan and the SDBA, they will reach the 401(k) millionaire status when they are age 64.

They would have to contribute $290,062, which is significantly more than if they started at age 25 or 35 to reach this milestone.

This example shows you that you can still reach the 401(k) millionaire status, but you must contribute quite a bit more each paycheck to make up for the lost time that you didn't save.

No matter your situation, you can be a 401(k) millionaire.

Definitions

401(k) Plan is a retirement savings plan offered by many American employers that has tax advantages for the saver. It is named after a section of the U.S. Internal Revenue Code (IRC). The employee who signs up for a 401(k) agrees to have a percentage of each paycheck paid directly into an investment account. The employer may match part or all that contribution. The employee gets to choose among several investment options, usually mutual funds. The 401(k) plan was designed by the United States Congress to encourage Americans to save for retirement. Among the benefits they offer is tax savings.

Accredited Investment Fiduciary (AIF®) is a professional certification that demonstrates an advisor or other person serving as an investment fiduciary has met certain requirements to earn and maintain the credential. The purpose of the AIF® Designation is to assure that those responsible for managing or advising on investor assets have a fundamental understanding of the principles of fiduciary duty, the standards of conduct for acting as a fiduciary, and a process for fulfilling fiduciary responsibility. Fi360 is accredited by the American National Standards Institute (ANSI) for the AIF® Designation, making the designation part of an elite group of accredited designations recognized by FINRA.

Asset Category is a grouping of investments that exhibit similar characteristics and are subject to the same laws and regulations. The main asset categories include equities (stocks), fixed income (bonds), cash and cash equivalents (CDs), and real estate and commodities.

Asset Class is a further breakdown of the investments that are in an asset category. For example, equities can be further segmented into U.S. equities, foreign equities, and emerging markets equities. U.S. equities can be further grouped by market capitalization, such as small-cap growth, small-cap blend, and small-cap value. It's used to help investors make meaningful comparisons between funds.

Basis Point (bps) is one one-hundredth (1/100 or 0.01) of 1%.

Bear Market is when a market experiences prolonged price declines. It typically describes a condition in which securities prices fall 20% or more from recent highs amid widespread pessimism and negative investor sentiment. Bear markets may be contrasted with upward-trending bull markets.

Behavioral Finance is the study of the influence of psychology on the behavior of investors or financial analysts. It also includes the subsequent effects on the markets. It focuses on the fact that investors are not always rational, have limits to their self-control, and are influenced by their own biases.

Beta measures the sensitivity of an investment to the movement of its benchmark. A beta higher than 1.0 indicates the investment has been more volatile than the benchmark and a beta of less than 1.0 indicates that the investment has been less volatile than the benchmark.

Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index that measures the performance of the investment grade universe of bonds issued in the United States. The index includes institutionally traded U.S. Treasury, government sponsored, mortgage and corporate securities.

Broker is a professional who executes buy and sell orders for stocks and other securities on behalf of clients. A broker may also be known as a registered representative. A broker is usually associated with a broker-dealer and handle transactions for retail and institutional customers alike. A broker often receives commissions for their services.

Broker-dealer is a firm in the business of buying and selling securities for its own account or on behalf of its customers. A broker-dealer is a buyer and seller of securities, and they are also distributors of other investment products. As the name implies, they perform a dual role in fulfilling their responsibilities. As a dealer, they act on behalf of the brokerage firm, initiating transactions for the firm's own account. As a broker, they manage transactions, buying and selling securities on behalf of their clients.

Bull Market is a market that is on the rise and where the economy is sound; while a bear market exists in an economy that is receding, where most stocks are declining in value. A bull market is a period in financial markets when the price of an asset or security rises continuously. The commonly accepted definition of a bull market is when stock prices rise by 20% after two declines of 20% each.

Chartered Financial Analyst (CFA) is considered the most exclusive and most difficult title to achieve. The CFA designation requires multiple monitored exams, working as an investment professional for a minimum of four years, and committing to a code of ethics and standards of professional conduct. This title is bestowed by the CFA Institute, founded in 1959. However, it is unlikely that an individual investor would deal with a CFA. CFAs are generally research analysts employed by investment banks, mutual fund companies, and securities firms. They typically specialize in an industry and the companies operating within that industry.

Certified Financial Planner (CFP) is a designation conferred by the Certified Financial Planner Board of Standards, Inc., has become increasingly popular in recent years, particularly by those who provide fee-based advisory services to individuals or sell financial products which are frequently coordinated with other components of personal finance. Certification is rigorous and it involves a lengthy education requirement and follows the successful passage of multiple exams completed over a two-day period dealing with personal finance subjects, including investments, insurance, and estate planning. Candidates are required to possess a bachelor's degree and three years of relevant experience and must adhere to a code of ethics.

Chicago Board Options Exchange (CBOE) Volatility Index (VIX) is a measure of market expectations of near-term volatility as conveyed by S&P 500 stock index option prices.

Compounding is the ability of an asset to generate earnings, which are then reinvested or remain invested with the goal of generating their own earnings. In other words, compounding refers to generating earnings from previous earnings.

Correlation is a statistical measure of the relationship between two sets of data. When asset prices move together, they are described as positively correlated; when they move opposite to each other, the correlation is described as negative or inverse. If price movements have no relationship to each other, they are described as uncorrelated.

Cyclically Adjusted Price-to-Earnings Ratio (CAPE) is defined as price divided by the average of ten years of earnings, adjusted for inflation.

Drawdown is a peak-to-trough decline during a specific period for an investment, trading account, or fund. Drawdowns are important for measuring the historical risk of different investments, comparing fund performance, or monitoring personal trading performance.

Expected Return is the amount of profit or loss an investor can anticipate receiving on an investment. An expected return is calculated by multiplying potential outcomes by the odds of them occurring and then totaling these results.

Expense Ratio measures how much of a fund's assets are used for administrative and other operating expenses. An expense ratio is determined by dividing a fund's operating expenses by the average dollar value of its assets under management (AUM).

Federal Funds Rate (fed funds rate, fed funds target rate, or intended federal funds rate) is a target interest rate that is set by the FOMC for implementing U.S. monetary policies. It is the interest rate that banks with excess reserves at a U.S. Federal Reserve district bank charge other banks that need overnight loans. The Federal Reserve's dot plot shows the projections of the 12 members of the Federal Open Market Committee (FOMC) on where they think the fed funds rate should be at the end of the various calendar years shown, as well as in the long run—the peak for the fed funds rate after the Fed has finished tightening or "normalizing" policy from its current levels. The dot plot is published after each Fed meeting.

Federal Open Market Committee (FOMC) is a policy-making body of the Federal Reserve System responsible for the formulation of a policy designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments. The Fed's neutral rate is the rate that is consistent full employment and capacity utilization and stable prices. It is also called the terminal rate or neutral interest rate.

Federal Reserve Board (Fed) is responsible for the formulation of U.S. policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.

Fiduciary is a person who holds a legal or ethical relationship of trust with you. A fiduciary prudently takes care of your money or assets. A fiduciary may be a financial advisor, a corporate trust company, or the trust department of a bank. When a financial advisor has a fiduciary duty to you, they must act in a way that will financially benefit you. The financial advisor who has a fiduciary duty is called the fiduciary, and you to whom the duty is owed is called the principal or the beneficiary.

Fiduciary Standard refers to a standard that an investment advisor representative (IAR) is bound to and is regulated by the Securities and Exchange Commission (SEC) or state securities regulators, both of which hold advisors to a fiduciary standard that requires them to put their client's interests above their own. The act is specific in defining what a fiduciary means, and it stipulates that an IAR must place their interests below that of their clients. It consists of a duty of loyalty and care.

Financial Industry Regulatory Authority (FINRA) is an independent regulator of securities firms doing business in the United States. Securities are financial instruments, such as stocks or bonds, which can be traded freely on the open market.

Financial Plan is a comprehensive evaluation of an individual's current pay and future financial state by using current known variables to predict future income, asset values, and withdrawal plans. This often includes a budget which organizes an individual's finances and sometimes includes a series of steps or specific goals for spending and saving in the future. This plan allocates future income to several types of expenses, such as rent or utilities, and reserves some income for short-term and long-term savings. A financial plan is sometimes referred to as an investment plan, but in personal finance, a financial plan can focus on other specific areas such as risk management, estates, college, or retirement.

Glide Path refers to a formula that defines the asset allocation mix of a target-date fund, based on the number of years to the target date. The glide path creates an asset allocation that typically becomes more conservative (i.e., includes more fixed-income assets and fewer equities) as a fund gets closer to the target date.

Global Investment Performance Standards (GIPS) are a set of voluntary standards used by investment managers throughout the world to ensure the full disclosure and fair representation of their investment performance.

Gross Domestic Product (GDP) is an economic statistic which measures the market value of all final goods and services produced within a country in each period.

Index Fund is a pool of investments that aims to mimic the performance of a certain market index. The most popular index funds are the S&P 500, the Dow Jones Industrial Average, and the Nasdaq Composite (though there are many more). Investors buy shares in the fund and see gains when stocks within the fund grow in value.

Index Option is a contract that gives the buyer the right, but not the obligation, to buy or sell an underlying index at a strike price on an expiration date. Index options give investors the opportunity to trade on entire markets or specific segments of a market with a single transaction.

Inflation is the decline of purchasing power of a given currency over time. It is the rate at which the value of a currency is falling and, consequently, the general level of prices for goods and services is rising.

Inertia is the condition where investors are comfortable doing nothing and is a well-documented phenomenon by behavioral finance experts. When investors worry about making the wrong decision and are faced with too many choices, they do not know what to do. They dislike tasks that entail making multiple decisions.

Inverted Yield Curve refers to a market condition when yields for longer maturity bonds have yields which are lower than shorter-maturity issues.

Investment Advisers Act of 1940 is a law that regulates investment advisors. With certain exceptions, this Act requires that firms or sole practitioners compensated for advising others about securities investments must register with the SEC and conform to regulations designed to protect investors.

Investment Advisor Representative (IAR) is a financial professional who works for investment advisory companies. The primary responsibility of an IAR is to provide investment-related advice. According to regulations, IARs can only offer advice on topics on which they have passed the appropriate examinations. An IAR must register with a Registered Investment Advisor (RIA) firm. IARs receive compensation by charging fees.

Investment Policy Statement (IPS) is a document drafted between a financial advisor and their client that outlines general rules for the investments manager. This statement provides the general investment goals and objectives of a client and describes the strategies that the manager should employ to meet these objectives. Specific information on matters such as asset allocation, risk tolerance, and liquidity requirements may be included.

Managed Account refers to a customized investment account managed by a professional investment manager on behalf of an investor.

Market Capitalization (market cap) is the total dollar market value of all company's outstanding shares; it is calculated by multiplying a company's shares outstanding by the current market price of one share.

MSCI All Country World Index (ACWI) is a global equity index that measures the equity performance in both the developed and emerging markets. It covers more than 3,000 stocks globally. It is a market capitalization-weighted index developed by MSCI Inc.

MSCI Emerging Markets (EM) Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

MSCI US Index is an equity index which tracks the return of U.S. stocks. With its 625 constituents, the MSCI USA index reflects approximately 85% of the total market capitalization in the USA.

MSCI World Index is an unmanaged index of common stocks of company's representative of the market structure of 22 developed market countries in North America, Europe, and the Asia/Pacific Region. The index is calculated without dividends, with net or with gross dividends reinvested, in both U.S. dollars and local currencies.

Mutual Fund is an investment management company that invests in a variety of assets, including stocks and bonds. Investors can then purchase shares of the fund, thereby purchasing a stake in all companies within that portfolio. Unlike index funds, mutual funds are actively managed, meaning a professional monitors the portfolio's performance and regularly makes buys and trades within it.

Opportunity Cost represent the potential benefits an investor misses out on when choosing one alternative over another.

Preservation of Capital is a strategy for protecting the money an investor has available to invest.

Price-to-Book (P/B) Ratio is a stock's price divided by the stock's per share book value.

Price-to-Earnings (P/E) Ratio is a stock's price divided by its earnings per share.

Real GDP is a nation's total output of goods and services in constant dollar, or inflation-adjusted terms.

Real Yields are calculated by adjusting stated yields to compensate for inflation expectations over the time during which the yields are expected to be paid.

Registered Investment Advisor (RIA) is a firm who advises high-net-worth individuals on investments and manages their portfolios. RIAs have a fiduciary duty to their clients, which means they have a fundamental obligation to provide investment advice that always acts in their clients' best interests. RIAs are required to register either with the Securities and Exchange Commission (SEC) or state securities administrators.

Return on Equity (ROE) is the amount of net income returned as a percentage of shareholders' equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. ROE is expressed as a percentage and calculated as: Return on Equity = Net Income/Shareholders' Equity.

Risk Tolerance is the degree of variability in investment returns that an investor is willing to withstand in their financial planning.

S&P 500 Index is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S.

Securities and Exchange Commission (SEC) is a U.S. Government agency, with the purpose of protecting investors from dangerous or illegal financial practices or fraud, by requiring full and accurate financial disclosure by companies offering stocks, bonds, mutual funds, and other securities to the public.

Self-Directed Brokerage Account (SDBA) is an individual brokerage account in which you have complete control over how you invest your money. That means you aren't locked into a narrow selection of core funds that are made available in the plan. In a SDBA, you can buy thousands of individual stocks, bonds, mutual funds, and ETFs. The plan will allow the participants to move some or all their assets in the 401(k) plan to the SDBA. Only about 20% of employers offer a SDBA. If you place trades through an SDBA, you will incur additional access fees and trading costs.

Sequence of Returns Risk is the risk that comes from the order in which your investment returns occur. To put it another way, sequence of return risk is the risk that market declines in the early years of retirement, paired with ongoing withdrawals, could significantly reduce the longevity of a portfolio.

Stable Value Fund is a portfolio of bonds that are insured to protect the investor against a decline in yield or a loss of capital. The owner of a stable value fund will continue to receive the agreed-upon interest payments regardless of the state of the economy. Stable value funds are a common option in some retirement plans such as company 401(k) plans, especially aimed at those savers nearing retirement. Stable value funds invest in high-quality government and corporate bonds, short-term, and intermediate term. They are no different from any bond fund, except they are insured. An insurance company or bank is contractually obligated to protect the fund's investors from any loss of capital or interest.

VIX stands for volatility index and is a blended implied volatility value calculated using specific S&P 500 Index option contracts and is used as a sentiment indicator. An index option contract gives the buyer the right, but not the obligation, to buy or sell an underlying index at a strike price on an expiration date. Index option contracts give investors the opportunity to trade on entire markets or specific segments of a market with a single transaction. Therefore, a climbing VIX reflects bearish conditions in the S&P 500 and typically the markets.

Volatility refers to the amount of uncertainty or risk related to the size of changes in a security's value. A higher volatility means that a security's value can potentially be spread out over a larger range of values.

Yield Curve is the graphical depiction of the relationship between the yield on bonds of the same credit quality but different maturities.

Acknowledgements

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31. Since 1994, DALBAR’s Quantitative Analysis of Investor Behavior (“QAIB”) has measured the effects of investor decisions to buy, sell and switch into and out of mutual funds over short and long-term time frames. These effects are measured from the perspective of the investor and do not represent the performance of the investments themselves. The results consistently show that the average investor earns less – in many cases, much less – than mutual fund performance reports would suggest. The 25th Annual QAIB examines real investor returns in nearly 30 distinct categories of investors. The analysis covers the 20-year period to December 31, 2018, which encompasses the aftermath of the crash of 1987, the drop at the turn of the millennium, the crash of 2008, plus recovery periods leading up to the most recent bull market. https://www.dalbar.com/

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