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Retirement Plans to Savers: Sit Tight

Financial advisers are suggesting more moves than ever. Why are 401(k) plans doing the opposite?

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Last month, roughly three out of four advisers said they believe a tactical approach trading and tweaking with market movements -- can outperform a passive, "set it and forget it" strategy over the long term, according to a survey of 500 financial advisers surveyed by **Jefferson National**, a company that provides investments and services to financial advisers.

At a time when many advisers and professionals are giving up on "buy and hold," many large 401(k) companies are telling investors to stand pat. Who's right?

During the worst three-month period for stocks since 2008, employees who turned to their 401(k) plans for advice heard an almost uniform message: avoid drastic portfolio changes and keep contributing. Fidelity has told investors to keep contributing so they can take advantage of gains when the market recovers. After Standard & Poor's downgraded U.S. government debt, T. Rowe Price posted a message online from its chairman telling 401(k) savers to stick with their long-term strategies. "When you allow short term events to impact your decision making, it very rarely is successful," says Michael Skinner, a vice president and head of client experience for T. Rowe Price Retirement Plan Services.

These calls to stay calm may fly in the face of the advice employees are getting from their personal advisers. Last month, roughly three out of four advisers said they believe a tactical approach trading and tweaking with market movements -- can outperform a passive, "set it and forget it" strategy over the long term, according to a survey of 500 financial advisers surveyed by Jefferson

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Data suggests at least some employee savers are listening to their advisers and getting more active, even within their 401(k) plans. In retirement plans sponsored by Vanguard, about 2.5% of employees made trades in August, and while that's still a tiny minority, it's almost twice as many as did so in May and June. About 2% of 401(k) participants at T. Rowe Price made changes, moving mainly from equity funds to fixed income, says Skinner.

After years of telling investors to hang in there, advisers now argue that moving from overpriced areas to sectors that provide stability and income can help investors reduce volatility, advisers say. Jeff Seymour, a wealth manager in Cary, N.C., said he took gains on long-term Treasurys in late September, after the Federal Reserve's announcement that it was going ahead with a policy meant to lower long-term rates. He sold equities earlier this year, he says, and is looking to buy beaten-down stocks starting next spring.

For their part, firms like Fidelity and T. Rowe Price say saving for retirement requires a long-term focus and often point out investors who don't do anything at all come out ahead. A Fidelity analysis of 401(k) performance during the 2008 downturn found that investors who maintained their allocations throughout the crisis saw their balances increase by 50% through June double the 25% increase for those who temporarily pulled out of stocks during the market decline.

But some providers have recommended making minor changes. ADP Retirement Services told clients to evaluate their accounts at least quarterly. And in an online Q&A, Vanguard told investors to consider tweaking their allocation if they find themselves uncomfortable with their strategy. For those who are anxious, but want to avoid dramatic moves, some advisers recommend limiting trading to only a portion of a portfolio. Steve Blumenthal, chief executive officer of CMG Capital Management Group, says he recommends keeping one-third of a portfolio tactical so that investors can have the leeway to move out of equities and reduce volatility when the market is bumpy without losing all equity exposure. "Being tactical makes more sense," says Blumenthal.

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