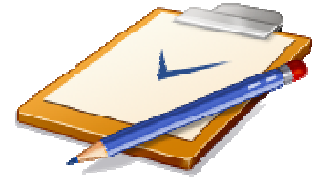


The 7 biggest 401(k) mistakes and how to avoid them

1. Not signing up

There's simply no reason not to participate in the 401(k) Plan. Each day you wait to participate is less money you will have in retirement.



2. Forsaking the full company match

It's essentially free money. The most common formula is that the employer will match 50% of what you put in, up to 6% of compensation. If you're afraid of going "all in" just inch your contribution up each quarter by 1% more of your salary. Most people can compensate for the decreased income by bringing lunch from home one or two more times each week.

3. Taking too little risk

It's understandable that some people would want to lighten up on stocks, either because they were approaching retirement or they have learned they weren't quite as risk-tolerant as they thought. Although, few investors will be able to reach their retirement goals without any exposure to equities. Most 401(k) investors seem to understand that stock and stock mutual funds are going to give them the best returns in the long run.

4. Taking too much risk

At the opposite end of the scale are the investors who overload on stocks. The volatility of the stock market proves that most investors can benefit from the cushioning effect of bonds and cash. Many of the folks who panicked and cashed out at the bottom of the market might have been able to stay had they had some bonds adding value to their portfolios.

5. Drinking the company Kool-Aid

In 1999, before Enron flamed out and took many of its workers' retirement dreams along with it, company stock in a 401(k) plan was much more heavily concentrated. This is not the case today. If you must invest in company stock, try to limit the overall investment to 10% of your balance. If your company matches your contributions with its own stock – as Enron did and as others still do – invest all of your own money elsewhere.

6. Taking out loans

Borrowing your own money is a bad idea because you are robbing your retirement nest egg! The biggest pitfall is the risk you take should you lose your job. Your loan would become due and if you can not pay it back at once, you would owe income taxes and penalties on the unpaid balance. Second, you're paying more than you think in interest.

7. Cashing out

Next to not signing up, cashing out your 401(k) when you leave a job is the worst mistake you can make with a retirement plan. Your 401(k) is set for a long-term goal. Too often people take the money and run every time they change jobs. That means a big tax hit and an early-distribution penalty.