



## **The Credit Crunch, Sub-Prime Woes and Your 401(k)**

A credit crunch results when liquidity dries up and capital becomes too hard or expensive to obtain from banks or other financial institutions. The capital markets are now experiencing this type of condition, triggered from the problems in the sub-prime and Alt-A mortgage markets.

To the extent the current credit crunch and mortgage woes spread to other areas of the market, concerns about the impact on 401(k) plans will persist. Markets have become more volatile and 401(k) plans are not immune to this volatility. The 401(k) plan, however, does offer participants two key advantages.

### **401(k) Advantage #1: Selection and Monitoring**

The first advantage is manager selection and oversight. Fixed income managers are not created equal, and not all employ the same strategies. Our Plan's investment advisor, JRN Benefits, Inc. generally recommends using fixed income managers who represent the entire fixed income market, known as "Core Fixed Income" managers. These managers typically have a high average investment grade rating on their portfolios, and little to no exposure in sub-prime and Alt-A mortgage securities.

JRN Benefits, Inc. does not generally recommend specialty fixed income managers, which include those managers focused on high yield debt, including CMOs, CDOs and/or other sub-prime and Alt-A mortgage related securities. Managers in these areas are having the most difficulty and are posting some poor returns.

Our 401(k) Plan's selection process reduces the risk that a participant will expose their account to a narrow and risky area of the market, like sub-prime debt, when selecting a fixed income investment strategy.

### **401(k) Advantage #2: Diversification**

The second key advantage of a 401(k) plan is the diversity of investments. Diversification plays a key role in protecting overall strategies and portfolios from large downfalls in any one asset class. 401(k) plans offer participants a wide range of well-diversified investment options. And, using core asset classes allows for diversity within each asset class so that sector or industry risk is mitigated. Short-term bouts of market volatility should not dissuade participants from following their investment strategy designed to fulfill their long-term retirement goals.

**Knowing that the 401(k) plan allows for certain key advantages is one of the many reasons for a participant to participate in the 401(k) plan and to stick with it for the long-term.**