



## **Making 401-k Work for You**

*June, 2008*

### **West Chester Capital**

West Chester Capital Advisors, Inc.  
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## Introduction

*Whether you know it or not, as a participant in a 401-k defined contribution pension plan, you are your own chief investment officer. Your employer will hire investment and recordkeeping vendors, make salary deferrals for you, perhaps even match your contribution as an enticement to participate. But when it comes to investment results, which will determine your standard of living during retirement, the investments are entirely your responsibility.*

That responsibility is a double edged sword. It places the burden of organizing a number of functions required by prudent asset management squarely on the shoulders of each participant. It also allows for each participant to determine their own mix of assets. This allows each participant to be as aggressive or as conservative as they choose. You will have to understand the risk, return and correlation characteristics of a number of asset classes. You will have to choose the appropriate asset classes, blend and weights. You will have to select the funds to accomplish your allocation. You will have to monitor your performance, in absolute terms and versus your clearly defined goals. You will have to re-balance or modify your investments as asset class performance ebbs and flows. You will have to understand how costs impact your results. You will have to have a framework to organize this whole process. You will truly have to be your own chief investment officer.

As any good chief investment officer does, in order to have adequate results, you should implement a process, so that seat-of-the-pants decision making is minimized. There will forever be episodic turmoil in the capital markets. The more you can organize and implement a process which will help you endure periodic market turmoil and

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stay invested, the greater your likelihood of eventual investment success. This has never been more important.

For most working Americans, a defined contribution plan such as a 401-k will be their primary or only retirement plan; if they have one at all. With these plans, corporate America has deftly shifted the investment risk, responsibility and cost onto their employees. The difference in retirement wealth created over a working lifetime, between even small improvements in returns, can be very large, and hence meaningful to your quality of life during your retirement. Conversely, failing to capture these potentially higher returns through underinvestment, poor understanding of the process, emotional decision making, inattention, or any other performance limiting behavior, is very costly. While you may only have to answer to yourself and your family, failing to maximize your potential retirement wealth is a travesty. Once your working lifetime is over, so too is your ability to generate excess cash flows. You will transition from accumulating wealth to spending and perhaps distributing it to your heirs.

How can you make your 401-k work for you? By working for yourself. Take your responsibility as Chief Investment Officer seriously, and treat your 401-k as your own pool of institutional assets. Where your retirement assets would have once been lumped together with many of your co-workers in a defined benefit plan of yore, they have now been broken out into your own bucket. That is the paradigm we want every 401-k participant to adopt.

Resources exist to help you perform this role of CIO. Educational resources are typically available from your 401-k vendors and many other sources. Product information is readily available from your vendors as well. Information about asset allocation is also abundant, although the tools and knowledge required make this aspect of the investment process somewhat more challenging. Some vendors are allowed to offer participant specific advice, while some are not. Any or all of these functions can be outsourced or delegated to full

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Founded in 1994, West Chester Capital is a registered investment advisor managing \$150 million of client assets. Located in West Chester, Pennsylvania, West Chester Capital is a wholly owned subsidiary of AmeriServ Financial, a publicly held bank and trust company, headquartered in Johnstown, Pennsylvania. AmeriServ is a \$1 billion bank with a trust company administering \$1.8 billion in client assets.

West Chester Capital manages fiduciary quality portfolios and investment programs for individuals and institutions within a framework of openness, integrity, objectivity and rigorous client advocacy.

For more information, please visit our website at:

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time investment professionals who have the knowledge and tools to support you in your role as CIO.

The realities of today's retirement system are probably here to stay. Corporate America is highly unlikely to take up the cost, responsibility and burden of sponsoring defined benefit plans ever again. Your 401-k, if you have the ability or willingness to participate in one, has some attractive features. It is portable, and if you change jobs, it can be rolled into a Rollover IRA, which you control. You can often borrow money from it, although this is not recommended. You can invest as aggressively or conservatively as you choose. Your contributions are tax deferred and grow tax-free. Any match from your employer is free money, and yours to keep after the vesting schedule is met. The investment responsibility and results however, are yours entirely. While your employer has some obligation to make sure you take full advantage of the plan, you are essentially on your own. So take up the role of Chief Investment Officer of your own pool of retirement assets. You are working for yourself!

*Thomas F. McKeon, CFA  
Chief Investment Officer  
June, 2008*

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