PROGRAM MATERIALS
Program #33134
August 4, 2023

Part 2 of 4 - A CLE for Legal Professionals: How to Optimize Your 401(k) Investment Strategy

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Celesq® AttorneysEd Center
www.celesq.com

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HOW LEGAL PROFESSIONALS THINK

- All through your adult life you have been a high-achiever and problem-solver. You have met your work challenges and found creative solutions to your clients' problems. The inability to take control over your 401(k) is hugely inconsistent with your professional success and career achievements.

- Calling your own shots in your 401(k)—instead of guessing at what to do next—is what you really want.

- The people around you must be experts in an area of your life where you really do not have the time or expertise. You should be able to count on them to be honest and straight-forward. And to work in your best interest.

- When the burden and responsibility of managing your 401(k) is lifted, you will be able to focus on your family and your career.

- You are perfectly capable of understanding the timing and complexity of 401(k) investment management decisions. But you are unaware of the current generation of mutual fund analysis tools.

KEY QUESTIONS FOR YOUR 401(k) NOW

- How do I decide "WHAT TO BUY" on my firm's default 401(k) mutual fund menu?
- Do I need rules on "WHEN TO SELL" a 401(k) mutual fund I currently own?
- How does my annual 401(k) investment performance compare to the popular stock market averages? Or to other 401(k) mutual fund options available to me?
- Why do I find an endless stream of financial jargon on my 401(k) statement and provider web site?
- Why do I procrastinate making 401(k) mutual fund decisions?

401(k) INVESTMENT MANAGEMENT ISSUES

- NO TIME to watch your 401(k) investments. Other things in life are more important. The truth is that you do not have time in your life to do the things you WANT to do. Let alone the things you MUST do. Managing money is what I do for a living. And I know how much time it takes to do so properly.

- NO ACCESS to the latest generation of investment management technology. To help identify areas of stock market outperformance and underperformance. Over the last few years, you have lost out on tens of thousands of dollars of investment gains because you did not know WHAT TO BUY.

- NO GAME PLAN to preserve your 401(k) in the early stages of a stock and bond market decline. You periodically lose large chunks of your 401(k) principal. Because you remain 100% invested at all times. You do not know WHEN TO SELL.

401(k) INVESTMENT MANAGEMENT ISSUES

- NO INTEREST in managing your 401(k). At this stage of your working career, you know if you are interested in managing your 401(k) on your own or not. You were making good progress. Then came 2022. You saw several years of 401(k) investment gains and contributions vanish in a few weeks.

- NO KNOWLEDGE of the 401(k) management tools available. Does anyone here change the oil on their car? Fix their laptops? Root canals? Heart surgery? Face it, we live in a world of specialists. I would not last ten minutes in your law office doing what you do for a living. No offense, but there is no way on earth you know as much as I do about how to manage a 401(k) menu of mutual funds.

- NO EMOTIONAL WHEREWITHAL to make 401(k) investment management decisions. By nature, humans are emotional creatures. This is especially true when it comes to managing your 401(k). I am just as emotional as you are. The big difference is I support my investment management decisions with logical, independent analysis. I have the confidence to make those decisions when necessary.

- NO RELATIONSHIP with an independent financial advisor. A fiduciary responsible for your 401(k) preservation and annual investment performance.

401(k) INVESTMENT MANAGEMENT IMPROVEMENTS

To dramatically improve your 401(k) investment management decisions, you need to consider the following elements:

- Understand the things that matter.

- Understand the things that do not matter.

- Understand when the stock and bond market risk levels change.

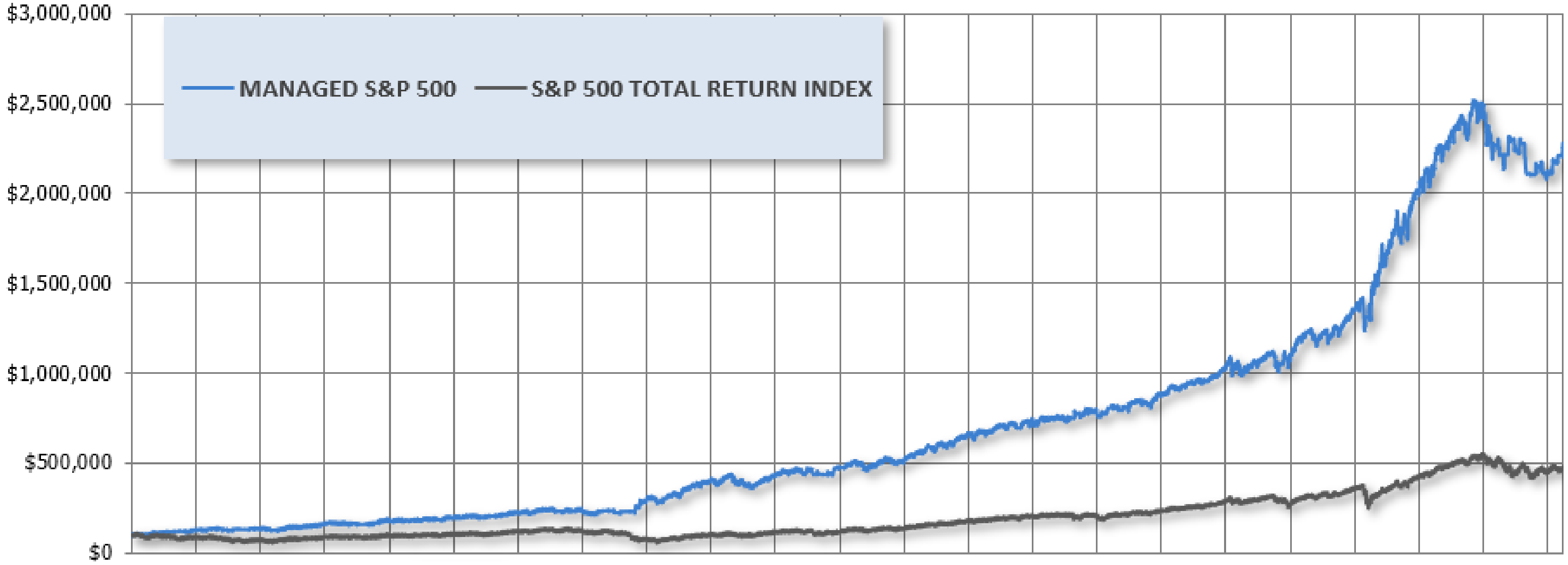
- Understand the 401(k) investment management tools available.

CHANGE YOUR 401(k) MINDSET

- If you think your 401(k) investment management problem will correct itself over time, then you will continue to ignore it.
- If you do not know about the cost of the mutual fund problem in your 401(k), then you will not likely take action to correct it.
- If you do not think the mutual fund problem in your 401(k) is big enough to worry about, then you will not likely seek a solution.
- If you think the mutual fund problem in your 401(k) cannot be solved, then you will not likely keep your eyes and ears open for a solution.
- If you think the solution to your mutual fund problem in your 401(k) will cost too much, then you will not act.
- If you think the solution to your 401(k) investment management problem is worse than your problem, then you will ignore suggestions from investment professionals who offer solutions.

Historical Data

* for Date range 1/2/2001 - 3/31/2023



Ending value of initial $100,000 investment:

$2,279,052.25

CAGR: 15.11%

Loss Exposure Rating: 43

Ending value of initial $100,000 investment:

$481,342.00

CAGR: 7.32%

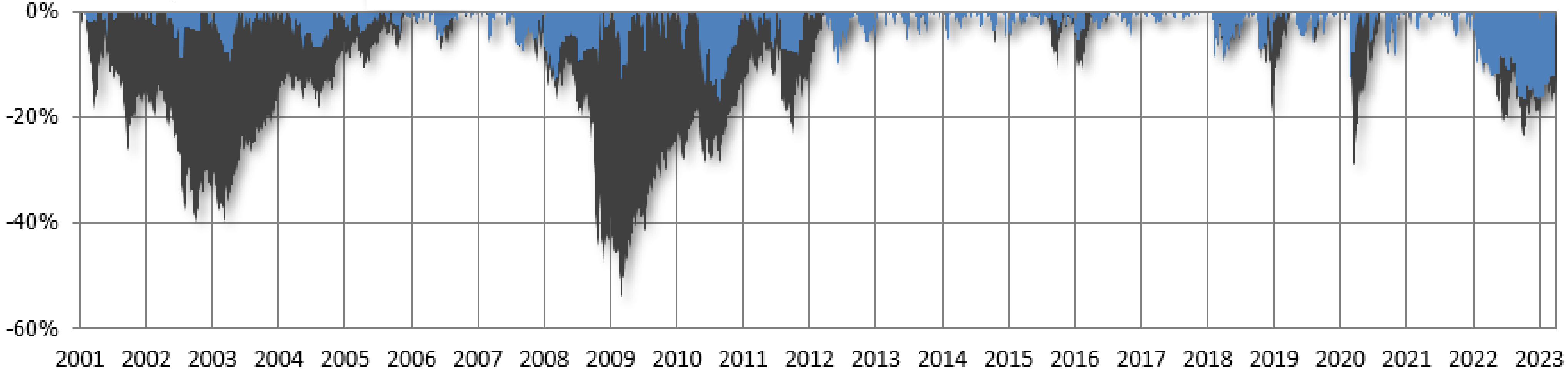
Loss Exposure Rating: 65

Difference:

$1,797,710.25

Image Source: SHERMAN PORTFOLIOS, LLC

Loss Exposure Profile



Maximum Drawdown

Managed S&P 500

-17.4% 12/28/2022

Selected Benchmark:

S&P 500 Total Return Index

-55.2% 3/9/2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Managed S&P 500	25.9%	4.6%	23.0%	13.0%	5.7%	15.1%	7.1%	25.5%	32.6%	8.4%	9.5%	7.7%	30.7%	10.1%	7.2%	11.0%	17.3%	7.7%	22.7%	49.9%	22.7%	-15.3%	8.6%
S&P 500 Total Return Index	-11.9%	-22.1%	28.7%	10.9%	4.9%	15.8%	5.5%	-37.0%	26.5%	15.1%	2.1%	16.0%	32.4%	13.7%	1.4%	12.0%	21.8%	-4.4%	31.9%	18.8%	28.7%	-18.1%	7.5%

Image Source: SHERMAN PORTFOLIOS, LLC

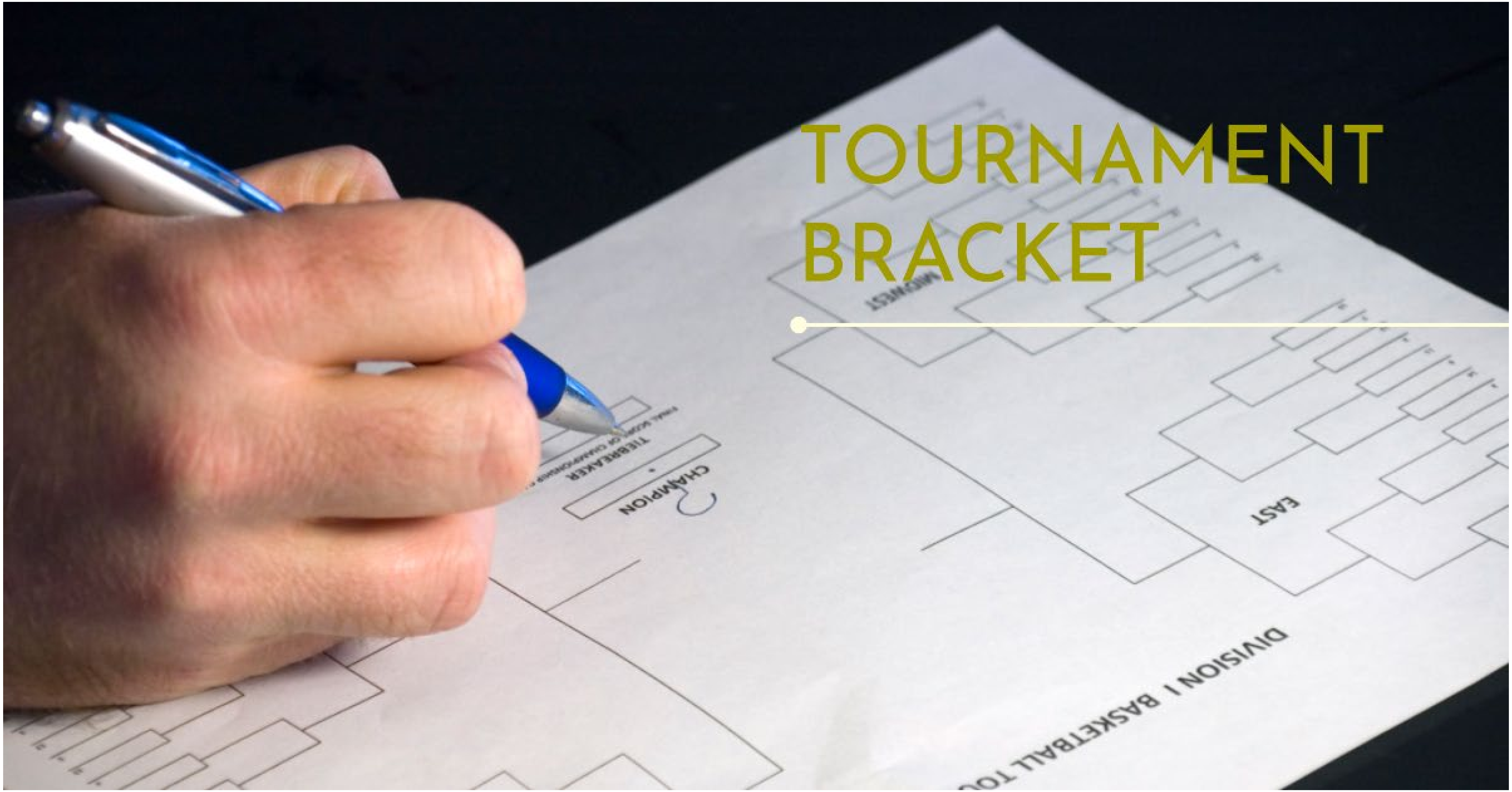
Calculated Statistics

	CAGR	MaxDD	Correlation	Beta	Sharpe	Sharpe Annualized	MAR Ratio	Up Capture	Down Capture	Std. Dev.	Std Dev Annual	R Squared	Loss Exposure Rating (LXR)
Managed S&P 500	15.1%	-17.4%	0.55	0.42	0.36	1.25	0.87	80.9%	32.5%	3.43%	11.9%	0.30	43
S&P 500 Total Return Index	7.3%	-55.2%	1.00	1.00	0.16	0.54	0.13	100.0%	100.0%	4.45%	15.4%	1.00	65

* for Date Range 1/2/2001 - 3/31/2023

Image Source: SHERMAN PORTFOLIOS, LLC

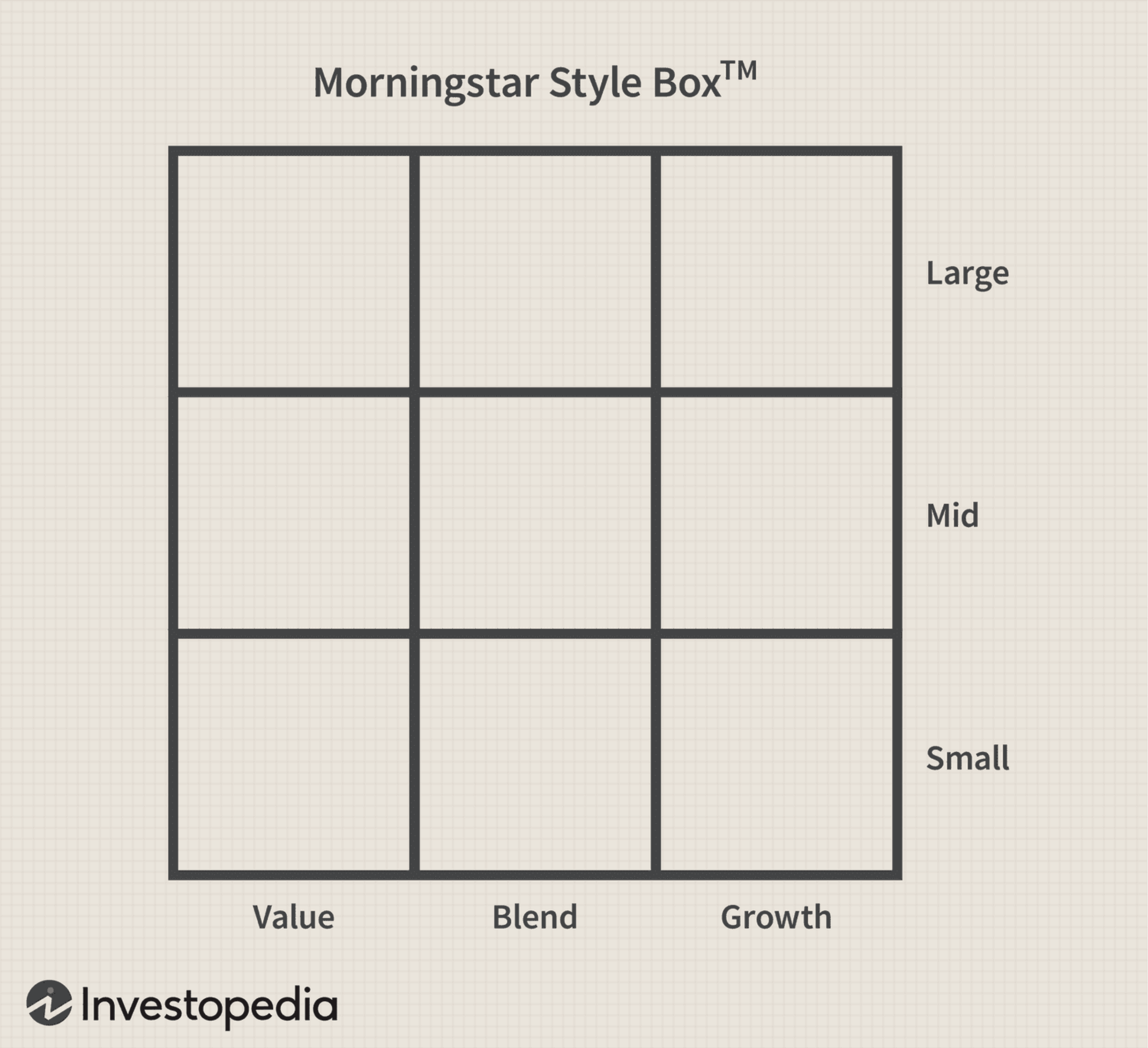
TOURNAMENT BRACKET



NCAA Men's College Basketball Tournament
Win-Loss Record, Round-by-Round per Seed
(data from 1985 - 2022)

Seed	1st Round	2nd Round	Regional Semifinals	Regional Finals	National Semifinals	National Title	Total	Winning Percentage
1	147 - 1	126 - 21	101 - 25	60 - 41	37 - 23	24 - 13	495 - 124	79.97%
2	138 - 10	93 - 45	67 - 26	32 - 35	13 - 19	5 - 8	348 - 143	70.88%
3	126 - 22	77 - 49	37 - 40	17 - 20	11 - 6	4 - 7	272 - 144	65.38%
4	117 - 31	70 - 47	22 - 48	13 - 9	3 - 10	1 - 2	226 - 147	60.59%
5	95 - 53	50 - 45	10 - 40	7 - 3	3 - 4	0 - 3	165 - 148	52.72%
6	91 - 57	43 - 48	15 - 28	3 - 12	2 - 1	1 - 1	155 - 147	51.32%
7	90 - 58	28 - 62	10 - 18	3 - 7	1 - 2	1 - 0	133 - 147	47.50%
8	72 - 76	15 - 57	9 - 6	6 - 3	4 - 2	1 - 3	107 - 147	42.13%
9	76 - 72	7 - 69	4 - 3	1 - 3	0 - 1	-	88 - 148	37.29%
10	58 - 90	24 - 34	9 - 15	1 - 8	0 - 1	-	92 - 148	38.33%
11	57 - 91	26 - 31	9 - 17	5 - 4	0 - 5	-	97 - 148	39.59%
12	53 - 95	22 - 31	2 - 20	0 - 2	-	-	77 - 148	34.22%
13	31 - 117	6 - 25	0 - 6	0 - 0	-	-	37 - 148	20.00%
14	22 - 126	2 - 20	0 - 2	0 - 0	-	-	24 - 148	13.95%
15	10 - 138	3 - 7	1 - 2	0 - 1	-	-	14 - 148	8.64%
16	1 - 147	0 - 1	-	-	-	-	1 - 148	0.67%
Total	1184 - 1184	592 - 592	296 - 296	148 - 148	74 - 74	37 - 37	2331 - 2331	

Image Source: NASDAQ DORSEY WRIGHT


Morningstar Style Box™
Large
Mid
Small
Value
Blend
Growth
Investopedia

Dynamic Asset Level Investing (D.A.L.I.) ®

D.A.L.I. Signals - 05/09/2023

Int'l Equities	Commod	Cash	Dom. Equities	Fixed Income	Currency
251 23.1% (+1)	**208** 19.1% (-1)	**195** 17.9% (+0)	**181** 16.7% (+0)	**130** 12.0% (+0)	**122** 11.2% (+0)

Image Source: NASDAQ DORSEY WRIGHT

Dynamic Asset Level Investing (D.A.L.I.) ®

Data as of 05/09/2023

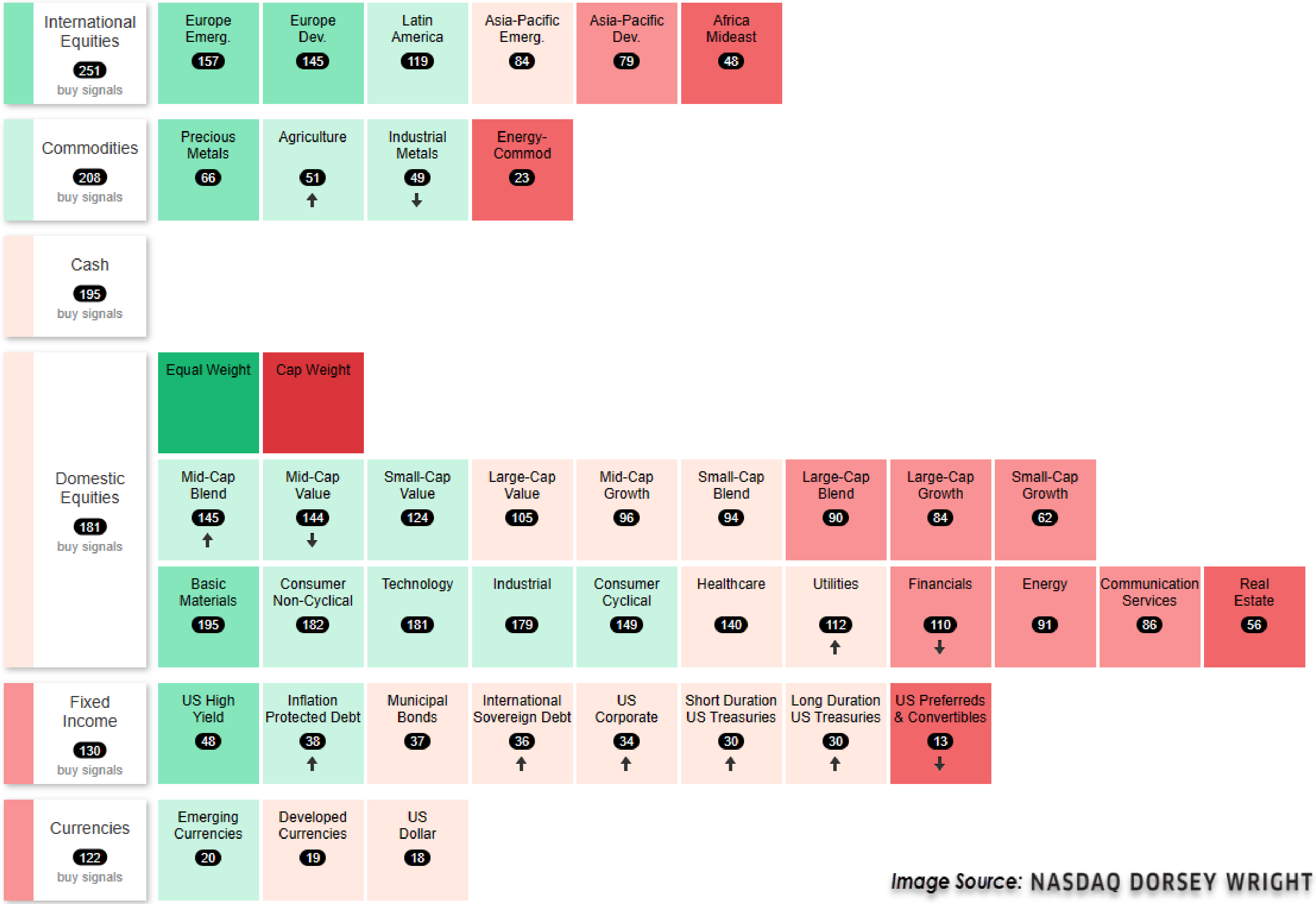
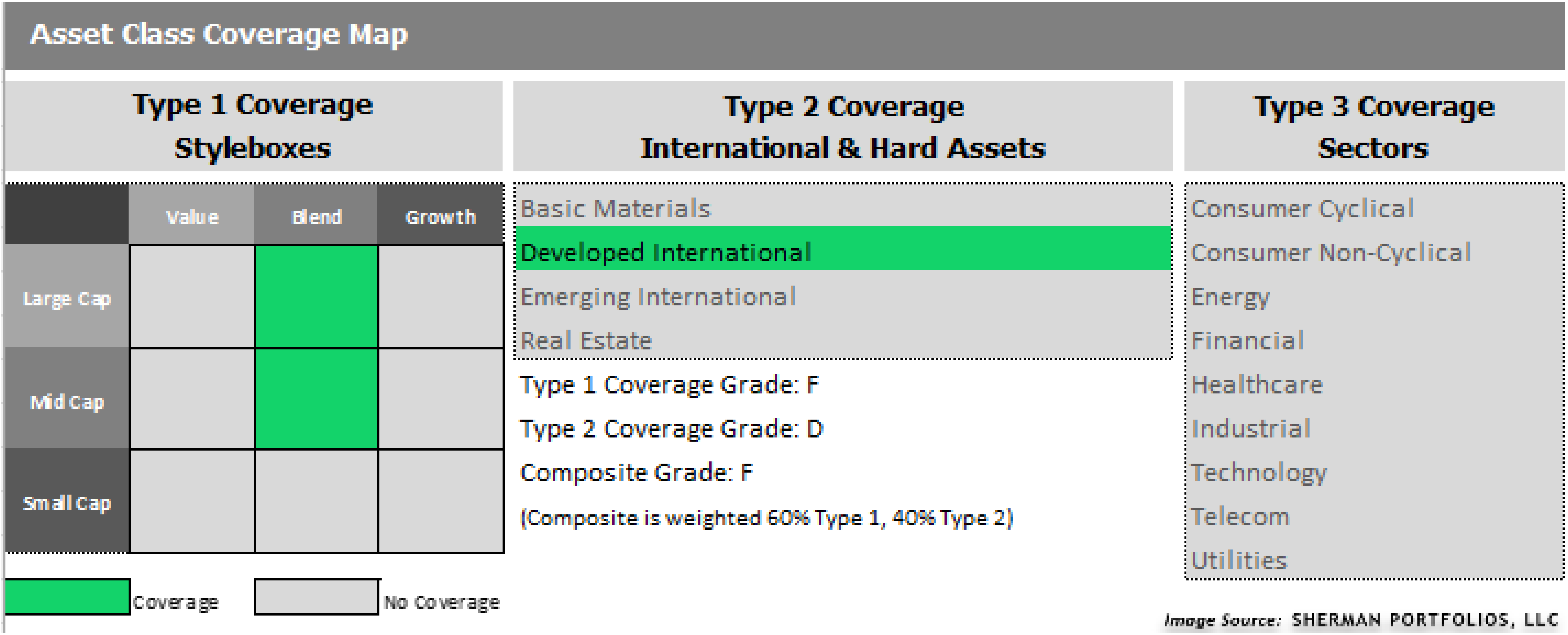


Image Source: NASDAQ DORSEY WRIGHT


Asset Class Coverage Map
Type 1 Coverage
Styleboxes
Type 2 Coverage
International & Hard Assets
Type 3 Coverage
Sectors
Value
Blend
Growth
Large Cap
Mid Cap
Small Cap
Coverage
No Coverage
Basic Materials
Developed International
Emerging International
Real Estate
Type 1 Coverage Grade: F
Type 2 Coverage Grade: D
Composite Grade: F
(Composite is weighted 60% Type 1, 40% Type 2)
Consumer Cyclical
Consumer Non-Cyclical
Energy
Financial
Healthcare
Industrial
Technology
Telecom
Utilities
Image Source: SHERMAN PORTFOLIOS, LLC

Current Rankings - All Investment Options

	Investment Name and Description	
Above Average	Harbor International	1
	Artisan International Fund	2
	Schwab Fdmtl Intl Sm Mid Co Idx	3
	Vanguard Total International Stock Index	4
	Mainstay Winslow Large Cap Growth	5
	Vanguard Insitutional Index	6
	Calamos Growth & Income	7
	PIMCO High-Yield	8
	Dodge & Cox Stock	9
	Vanguard Emerging Markets Stock Index Fund	10
	Vanguard Total Bond Market Index	11
	Vanguard Mid Cap Index	12
	Vanguard Shrt-Term Infl-Prot Sec Index	13
	TCW Total Return Bond	14
	Vanguard Inflation-Protected Secs	15
	Artisan Mid Cap	16
	Vanguard Total International Bond Index	17
US Mkt Avg	Russell 3000 Index	
Below Average	Brown Capital Mgmt Small Co	18
	JPMorgan Mid Cap Value	19
	Virtus NFJ Small Cap Value	20
	Vanguard Small Cap Index	21
	Vanguard Real Estate Index	22

Image Source: SHERMAN PORTFOLIOS, LLC

DIVERSIFICATION

ASSET ALLOCATION

REBALANCING

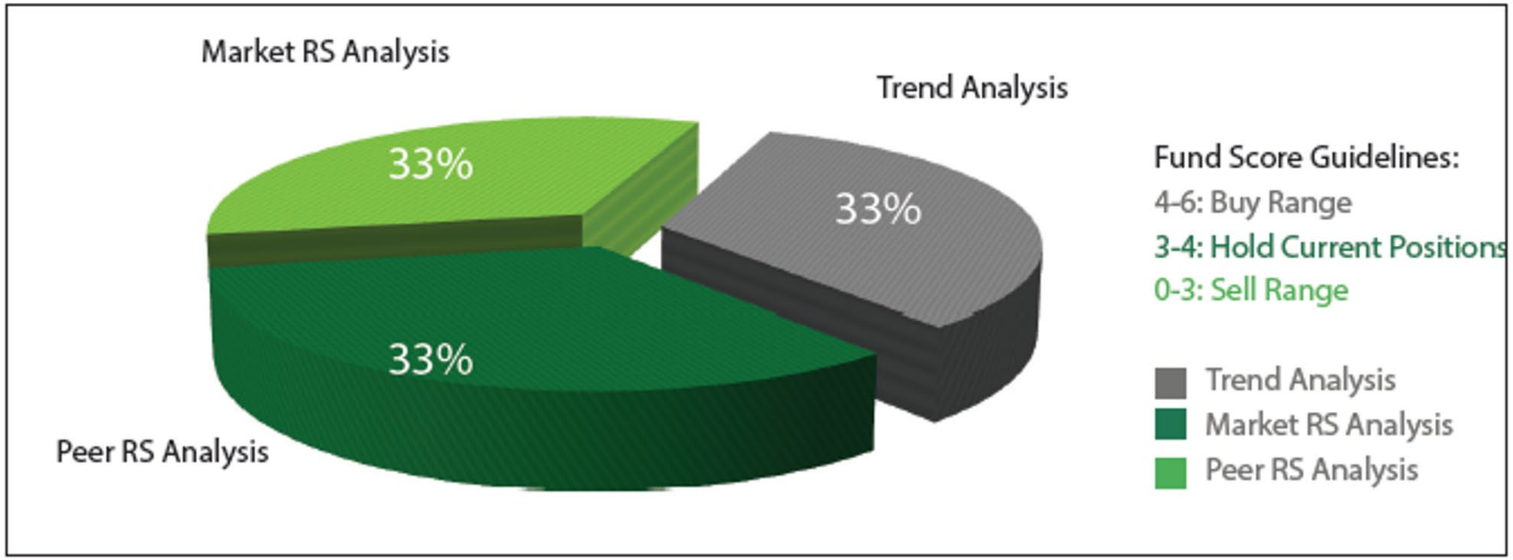
Group	Avg Score
S&P 500 Index Funds	3.73
US Large Cap Growth	3.67
US Large Cap Blend	3.31
All Equity Funds	3.19
All US Equity Diversified	3.15
US Large Cap Value	3.10
US Mid Cap Growth	3.10
US Money Market	2.97
US Mid Cap Blend	2.93
US Mid Cap Value	2.93
US Small Cap Growth	2.79
US Micro Cap	2.43
US Small Cap Blend	2.41
US Small Cap Value	2.18

Image Source: NASDAQ DORSEY WRIGHT

Rank	Ticker	Name	Tech Attribute/ Score	MWTIX	FXNAX	HAGIX	DODIX	JSAIX	FGCKX	CSRSX	FSSNX	JNSIX	JSMIX	SRJIX	JSIIX	JTTIX	JTSIX
1	DODFX	Dodge & Cox International Stock	5.40 ↑	BX	BX	BX	BX	BX	BO	BX	BX	BX	BX	BX	BX	BX	SX
2	FSPSX	Fidelity International Index InstlPrm	4.84 ↑	BX	BX	BX	BX	SX	BX	BX	BX	BX	BX	SX	BX	BX	SX
3	FXAIX	Fidelity 500 Index Institutional Prem	4.72 ↑	BX	BX	BX	BO	BX	BO	BX	BX	BX	BX	BX	BO	BO	BX
4	TRMCX	T. Rowe Price Mid-Cap Value	4.70 ↓	BO	BO	BX	BO	BX	BO	BX	BX	BX	BO	BO	BO	BO	BX
5	TQAIX	T. Rowe Price QM U.S. Small-Cap Growth Equity Fund I	4.67 ↑	BX	BX	SX	SX	BO	BO	SX	BX	BX	BX	BX	BX	BX	BO
6	VFSIX	Vanguard Short-Term Investment-Grade I	4.64 ↑	SX	SX	SX	SO	BO	BO	BX	SX	SX	SX	SO	SX	SX	SO
7	FGCKX	Fidelity Growth Company K	4.62 ↑	SX	BX	BX	SX	SX		BX	SX	SX	SX	BX	SX	SX	SX
8	[illegible]	Fideli[illegible] OTC	[illegible] ↑	SX	BX	BX	SX	BX	SO	BX	BX	SX	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
24	JNSIX	JPMorgan SmartRetirement 2025 Instl	3.29 ↑	BX	BX	BX	BX	SO	BO	BX	SX		BX	SO	BX	BX	SO
25	JSAIX	JPMorgan SmartRetirement 2045 Instl	3.18 ↑	BX	BX	SX	BX		BO	SX	BX	BX	BX	BX	BX	BX	BX
26	HAGIX	Eagle Mid Cap Growth I	2.57 ↑	SX	SO		BX	BO	SO	SX	BO	SO	SO	SO	SO	SO	SO
27	FSSNX	Fidelity Small Cap Index Instl Prem	2.39 ↓	BO	BO	SX	SO	BO	BO	BX		BO	SO	SO	SO	SO	SO
28	BRLVX	American Beacon Bridgeway Lg Cp Val Inst	1.69 ↓	BO	BO	BX	BO	BO	BO	BX	SO	BX	BO	BO	BO	BO	BO
29	CSRSX	Cohen & Steers Realty Shares	0.83 ↓	SO	SO	BO	SO	BO	SO		SO	SO	BO	BO	SO	SO	BO

Image Source: NASDAQ DORSEY WRIGHT

Fund Score Analysis

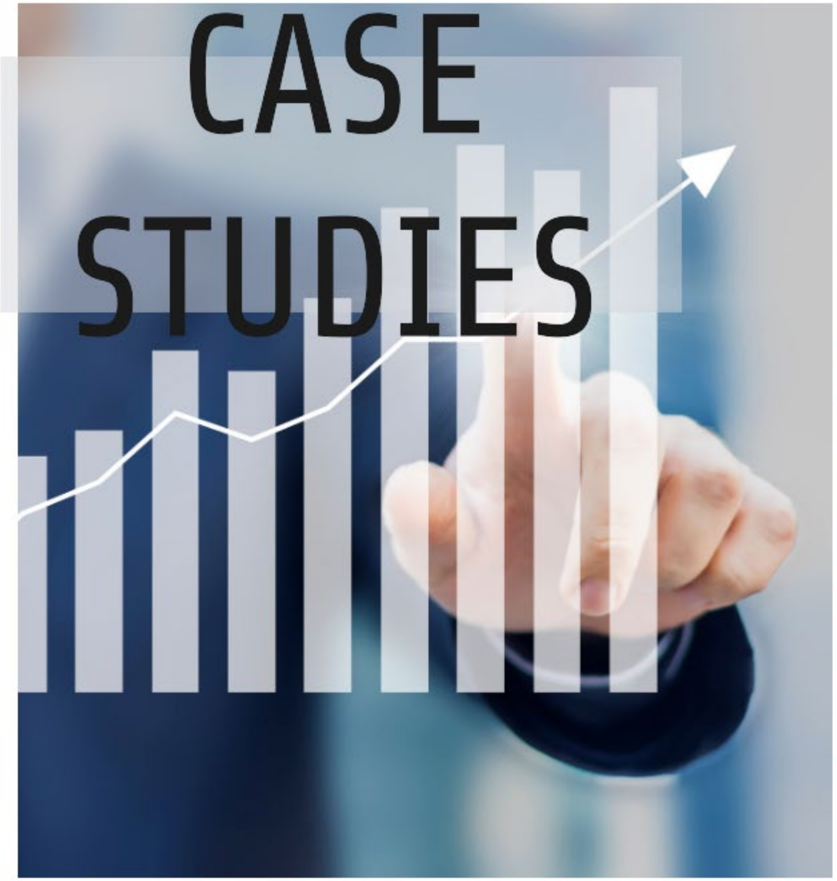


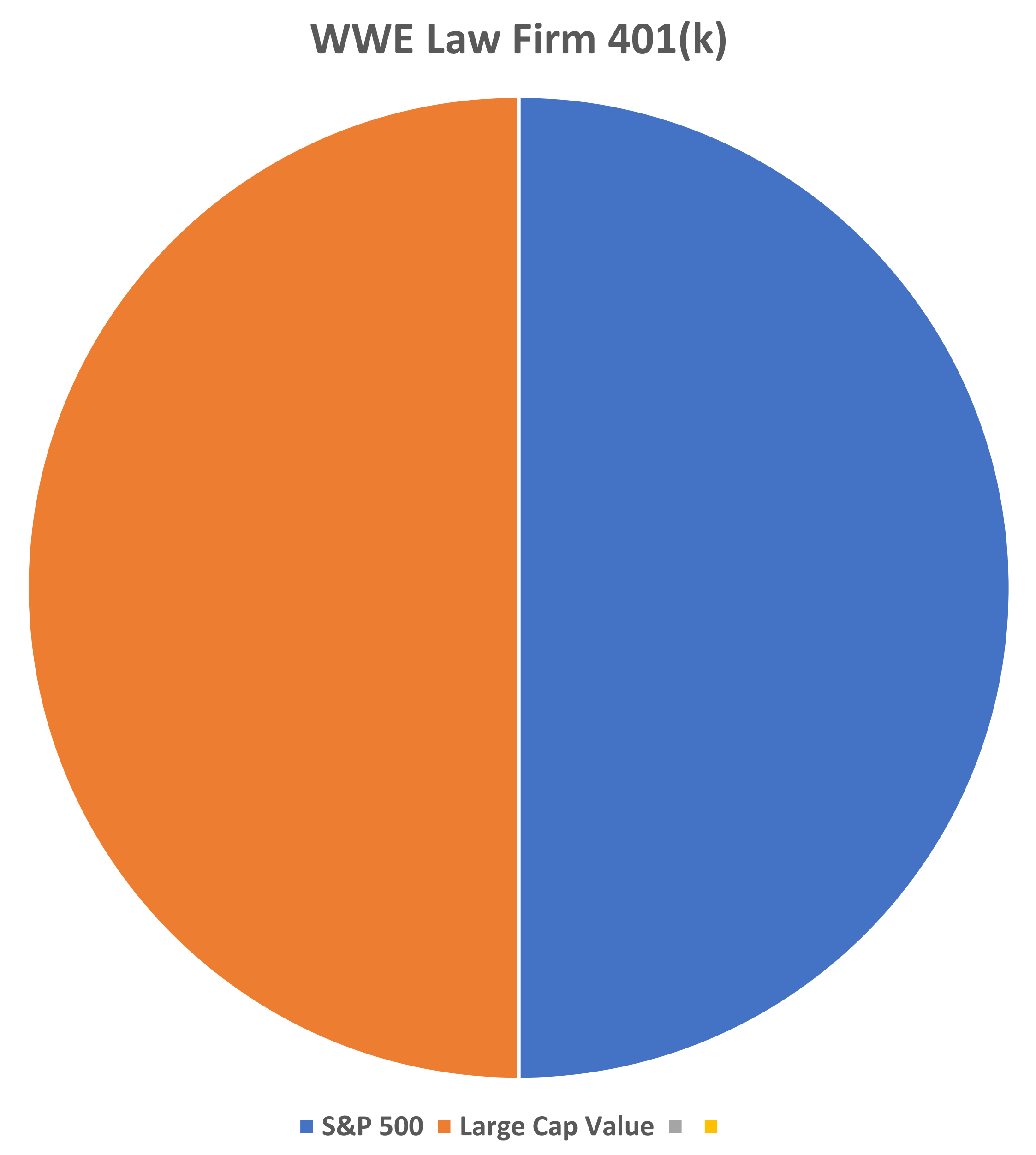
Fund Score Components		
Trend Analysis	**Market RS**	**Peer RS**
Positive Trend Line	Postive RS vs. Major Market	1 Year Percentile Rank Against Growth Domestic
PnF Buy Signal	Column of X's vs. Major Market	1 Year Percentile Rank Against All Large Cap Value
PnF Long Term Buy Signal	1 Year Percentile Rank Against Mutual Funds	90 Day Percentile Rank Against Growth Domestic
50 MA > 200 MA	1 Year Percentile Rank Against Asset Class	90 Day Percentile Rank Against All Large Cap Value
NAV > 40 Week MA	90 Day Percentile Rank Against Mutual Funds	
NAV > 30 Week MA	90 Day Percentile Rank Against Asset Class	
NAV > 10 Week MA	Percentile Rank Tally	
Positive Monthly Momentum		

Image Source: NASDAQ DORSEY WRIGHT

Symbol	Name	Tech Attrib / Score
DODFX	Dodge & Cox International Stock	5.62 ↑
FSPSX	Fidelity International Index InstlPrm	4.85 ↑
TRMCX	T. Rowe Price Mid-Cap Value	4.77 ↓
FLCOX	Fidelity Large Cap Value Index Fund	2.41 ↓
FSSNX	Fidelity Small Cap Index Instl Prem	2.25 ↓
CSRSX	Cohen & Steers Realty Shares	0.75 ↓

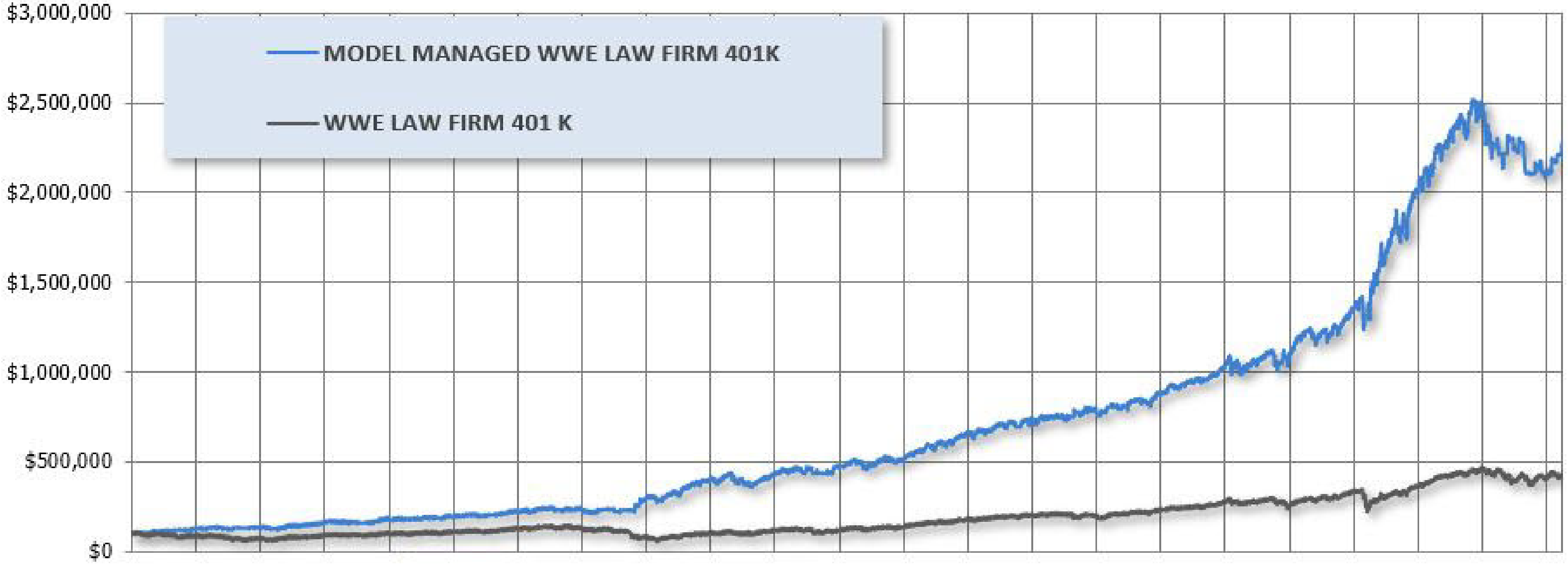
Image Source: NASDAQ DORSEY WRIGHT


CASE
STUDIES


WWE Law Firm 401(k)
S&P 500
Large Cap Value

Historical Data

* for Date range 1/2/2001 - 3/31/2023



Ending value of initial $100,000 investment:

$2,279,052.25

CAGR: 15.11%

Loss Exposure Rating: 43

Ending value of initial $100,000 investment:

$433,826.00

CAGR: 6.82%

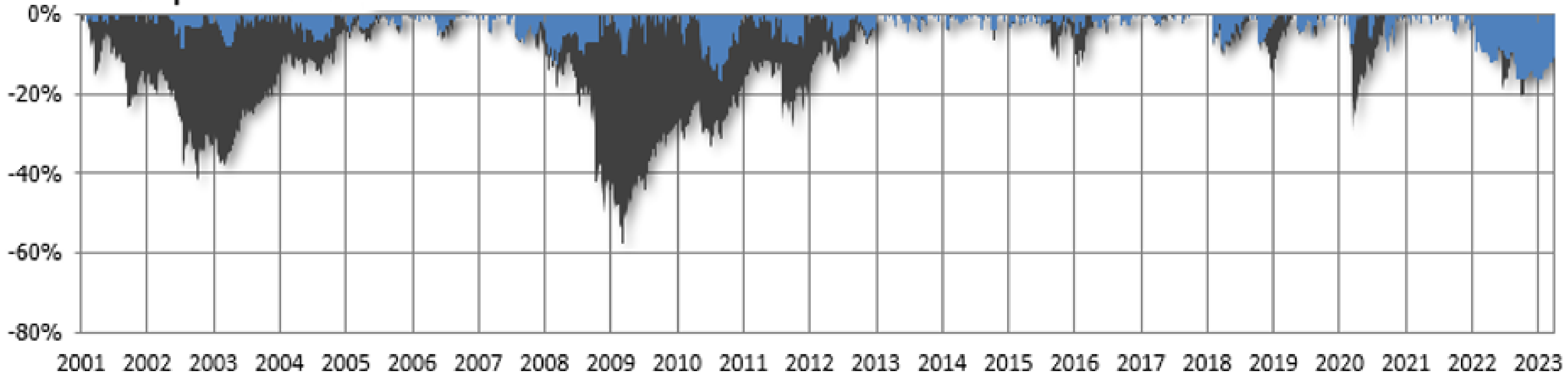
Loss Exposure Rating: 66

Difference:

$1,845,226.25

Image Source: SHERMAN PORTFOLIOS, LLC

Loss Exposure Profile



Maximum Drawdown

Model Managed WWE Law Firm 401k

-17.4% 12/28/2022

Selected Benchmark:

50% Lrg Cap Value/50%SPY

-58.3% 3/9/2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Model Managed WWE Law Firm 401k	25.9%	4.6%	23.0%	13.0%	5.7%	15.1%	7.1%	25.5%	32.6%	8.4%	9.5%	7.7%	30.7%	10.1%	7.2%	11.0%	17.3%	7.7%	22.7%	49.9%	22.7%	-15.3%	8.6%
50% Lrg Cap Value/50%SPY	-11.5%	-21.1%	29.9%	13.2%	5.2%	18.2%	3.3%	-37.7%	23.6%	15.0%	0.6%	16.8%	32.0%	12.8%	-1.1%	14.6%	18.5%	-7.5%	31.5%	9.6%	26.8%	-12.0%	6.3%

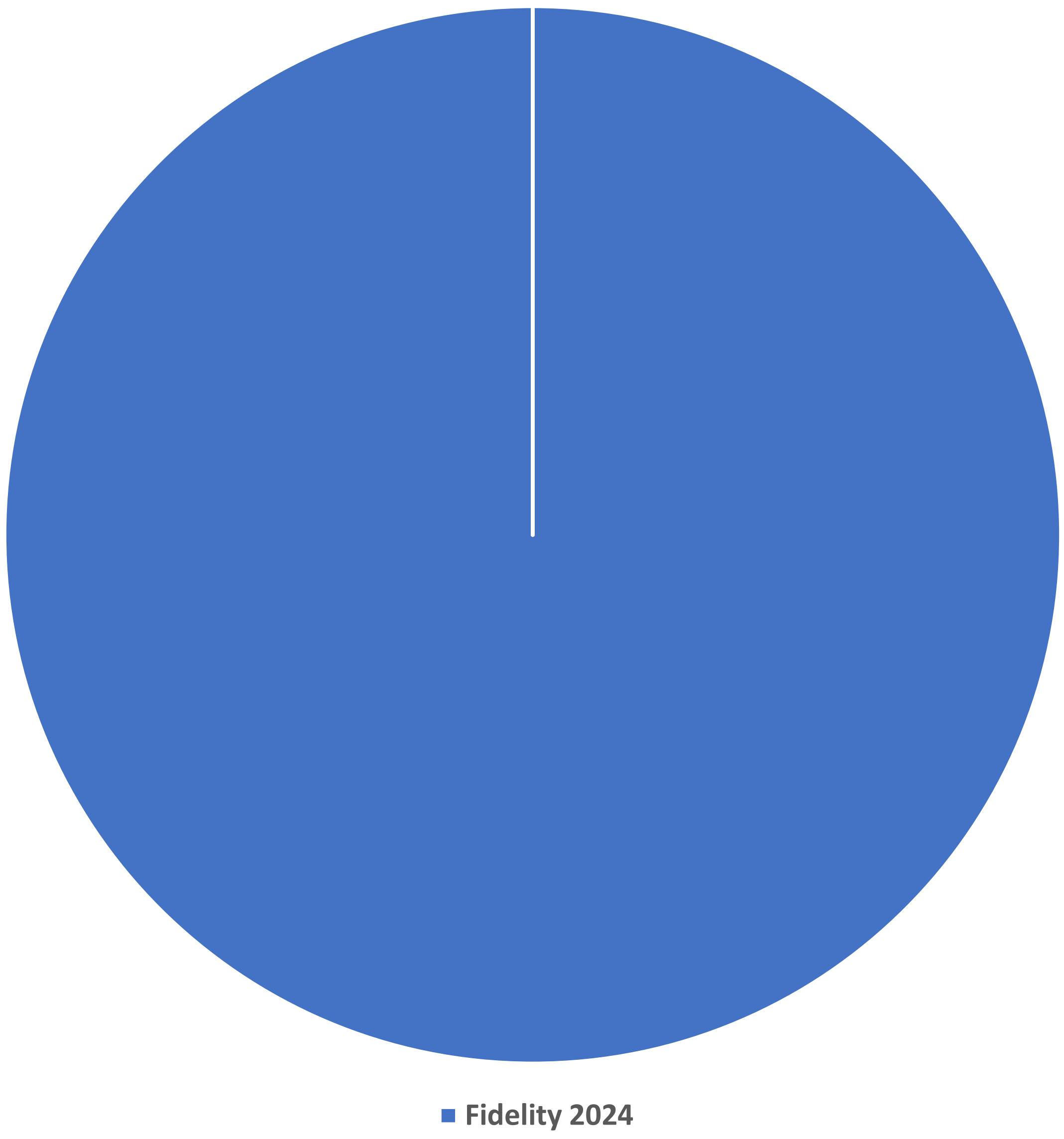
Image Source: SHERMAN PORTFOLIOS, LLC

Calculated Statistics

	CAGR	MaxDD	Correlation	Beta	Sharpe	Sharpe Annualized	MAR Ratio	Up Capture	Down Capture	Std. Dev.	Std Dev Annual	R Squared	Loss Exposure Rating (LXR)
WWE Law Firm 401K	15.1%	-17.4%	0.53	0.40	0.36	1.25	0.87	81.0%	31.6%	3.43%	11.9%	0.28	43
50% Lrg Cap Value/50%SPY	6.8%	-58.3%	1.00	1.00	0.15	0.50	0.12	100.0%	100.0%	4.50%	15.6%	1.00	66

Image Source: SHERMAN PORTFOLIOS, LLC

XYZ Law Firm 401(k)



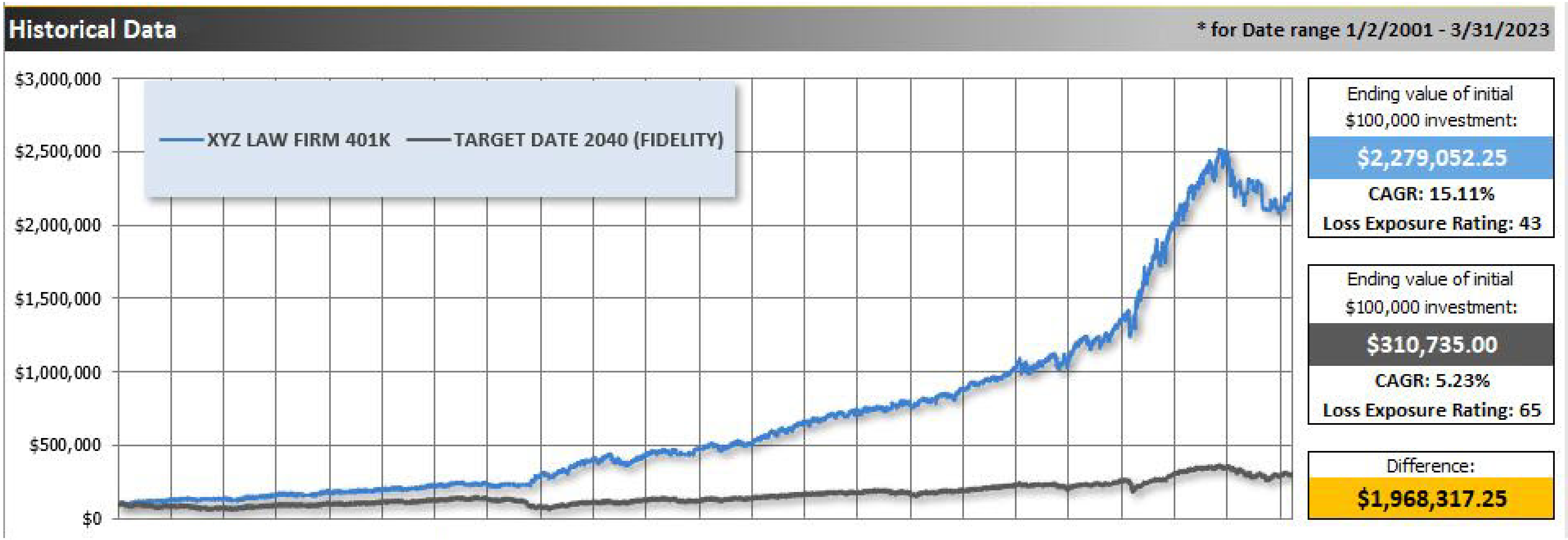
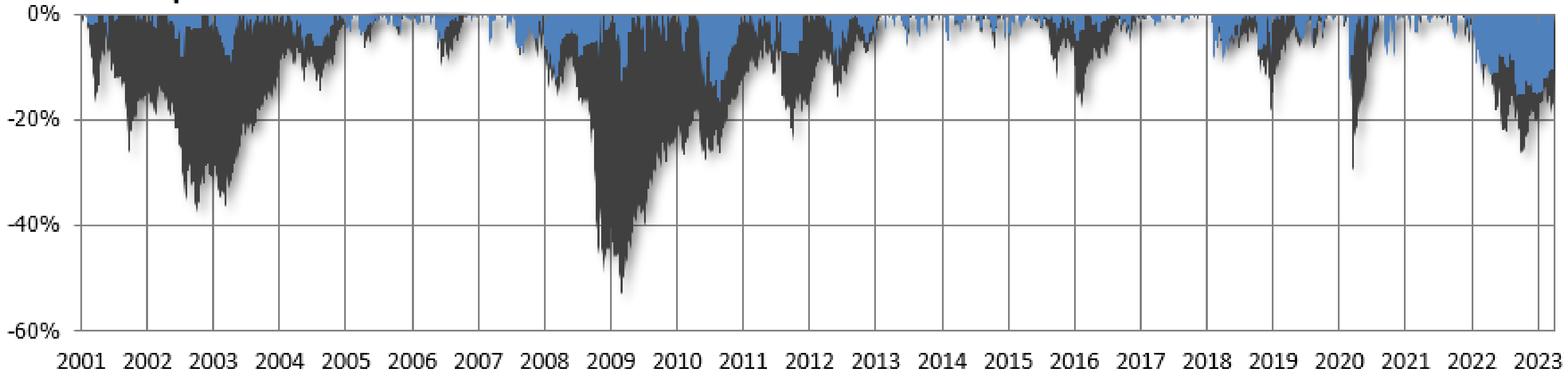


Image Source: SHERMAN PORTFOLIOS, LLC

Loss Exposure Profile



Maximum Drawdown

Managed XYZ Law Firm 401K

-16.7% 8/26/2010

Selected Benchmark:

Target Date 2040 (Fidelity)

-54.2% 3/9/2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Managed XYZ Law Firm 401K	27.8%	6.2%	24.9%	14.7%	7.3%	16.8%	8.7%	27.4%	34.7%	10.0%	11.2%	9.4%	32.7%	11.8%	8.8%	12.7%	19.0%	9.4%	24.5%	52.2%	24.6%	-14.0%	9.0%
Target Date 2040 (Fidelity)	-13.5%	-19.6%	31.1%	11.3%	9.1%	13.5%	9.3%	-38.8%	31.9%	14.5%	-4.5%	14.5%	21.0%	5.7%	-1.3%	6.7%	20.6%	-8.9%	25.5%	18.2%	16.5%	-18.3%	7.5%

Image Source: SHERMAN PORTFOLIOS, LLC

Calculated Statistics

	CAGR	MaxDD	Correlation	Beta	Sharpe	Sharpe Annualized	MAR Ratio	Up Capture	Down Capture	Std. Dev.	Std Dev Annual	R Squared	Loss Exposure Rating (LXR)
XYZ Law Firm 401K	15.1%	-17.4%	0.50	0.40	0.36	1.25	0.87	85.4%	27.9%	3.43%	11.9%	0.25	43
Target Date 2040 (Fidelity)	5.2%	-54.2%	1.00	1.00	0.12	0.42	0.10	100.0%	100.0%	4.24%	14.7%	1.00	65

* for Date Range 1/2/2001 - 3/31/2023

Image Source: SHERMAN PORTFOLIOS, LLC


ABC Law Firm 401(k)
Large Cap Value
S&P 500
Fixed Income
International

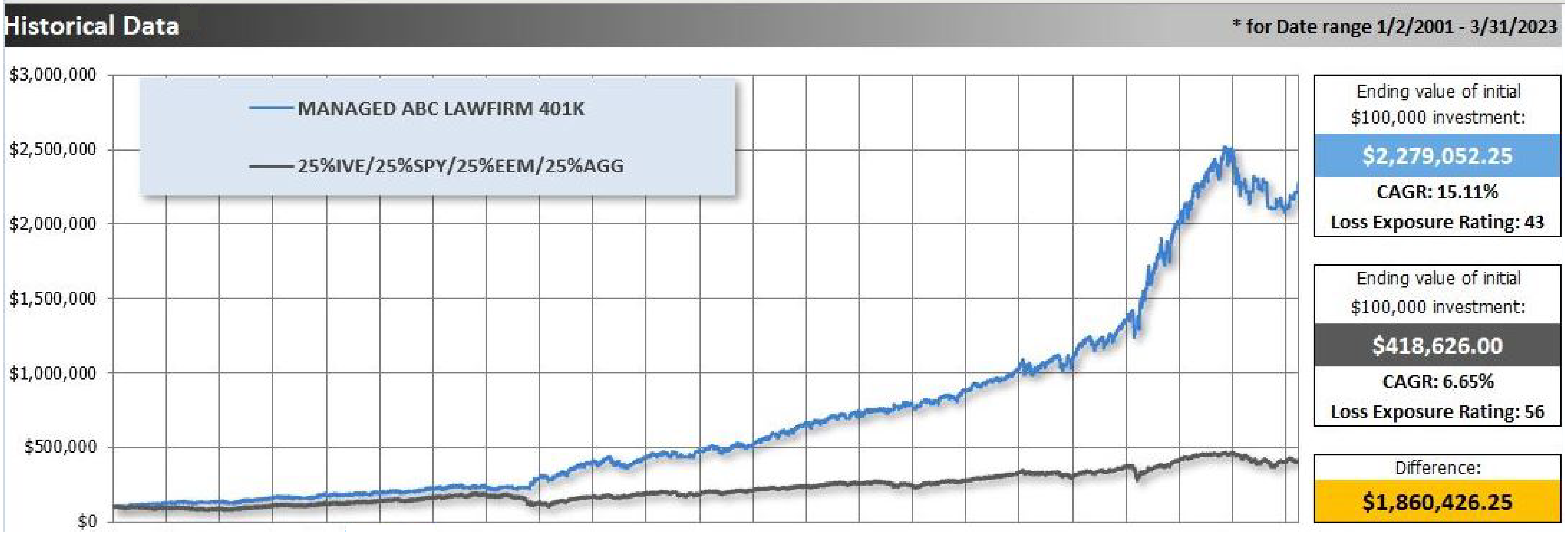
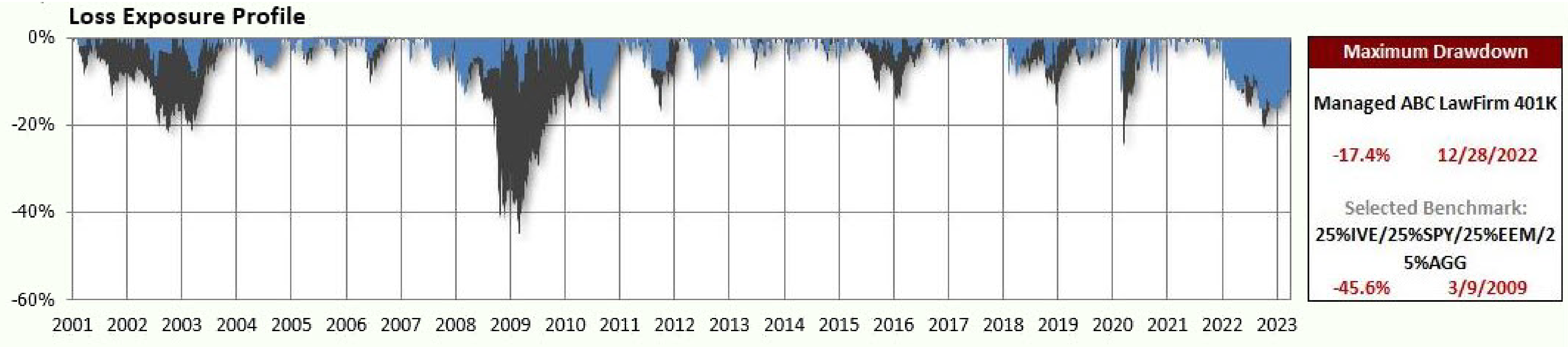


Image Source: SHERMAN PORTFOLIOS, LLC



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Managed ABC LawFirm 401K	25.9%	4.6%	23.0%	13.0%	5.7%	15.1%	7.1%	25.5%	32.6%	8.4%	9.5%	7.7%	30.7%	10.1%	7.2%	11.0%	17.3%	7.7%	22.7%	49.9%	22.7%	-15.3%	8.6%
25%IVE/25%SPY/25%EEM/25%AGG	-5.5%	-10.4%	29.6%	13.8%	11.0%	18.1%	11.9%	-29.5%	29.3%	13.8%	-2.1%	14.3%	13.6%	7.0%	-4.3%	10.9%	19.0%	-7.7%	22.3%	12.3%	11.4%	-13.9%	5.1%

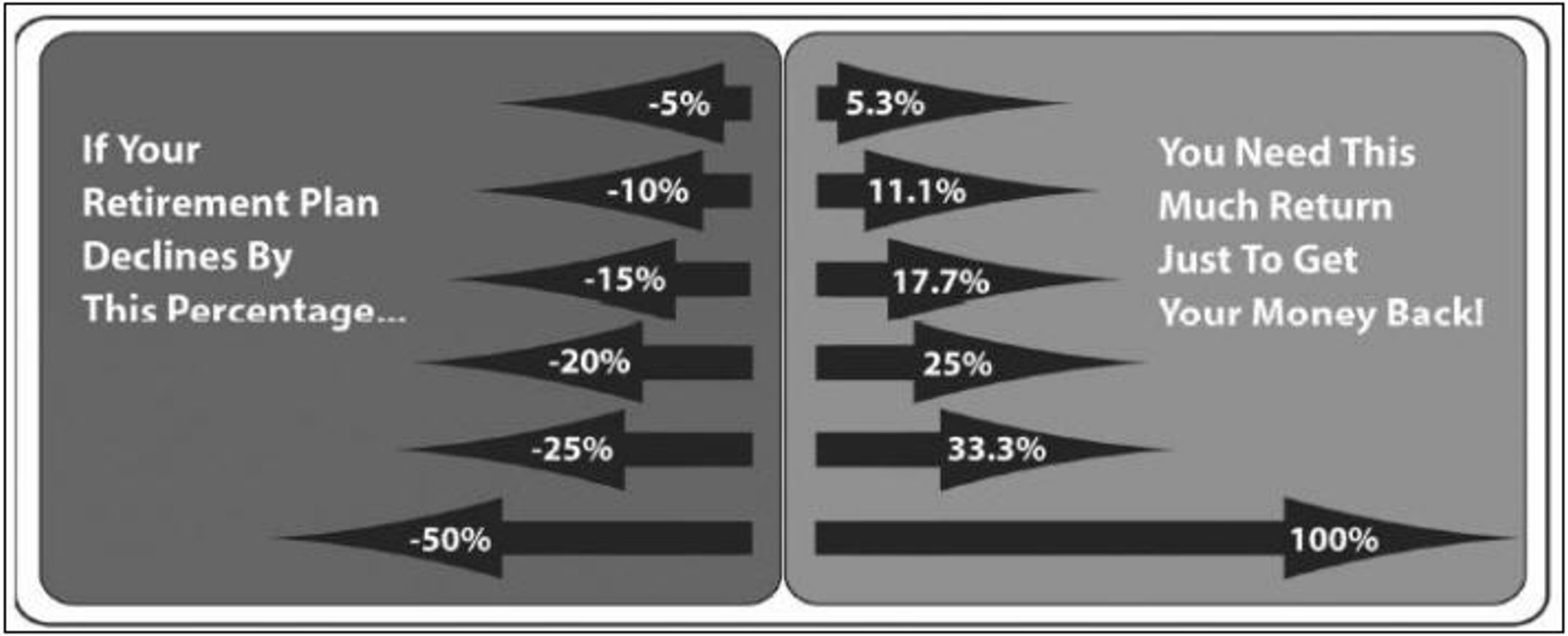
Image Source: SHERMAN PORTFOLIOS, LLC

Calculated Statistics

	CAGR	MaxDD	Correlation	Beta	Sharpe	Sharpe Annualized	MAR Ratio	Up Capture	Down Capture	Std. Dev.	Std Dev Annual	R Squared	Loss Exposure Rating (LXR)
Managed ABC Law Firm 401K	15.1%	-17.4%	0.50	0.49	0.36	1.25	0.87	99.3%	38.8%	3.43%	11.9%	0.25	43
25%IVE/25%SPY/25%EEM/25%AGG	6.6%	-45.6%	1.00	1.00	0.17	0.60	0.15	100.0%	100.0%	3.48%	12.1%	1.00	56

* for Date Range 1/2/2001 - 3/31/2023

Image Source: SHERMAN PORTFOLIOS, LLC


If Your
Retirement Plan
Declines By
This Percentage...
-5%
-10%
-15%
-20%
-25%
-50%
5.3%
11.1%
17.7%
25%
33.3%
100%
You Need This
Much Return
Just To Get
Your Money Back!

Take the percent loss and divide by (100 minus the percent loss)

$$\boxed{\frac{\textbf{Investment down by ?\%}}{\textbf{(100 - \% down)}} = \textbf{\% return needed to get back to even.}}$$

STOP LOSS

INSURANCE FOR YOUR 401(K)

SDBA is a

Self-Directed Brokerage Account in your 401(k)

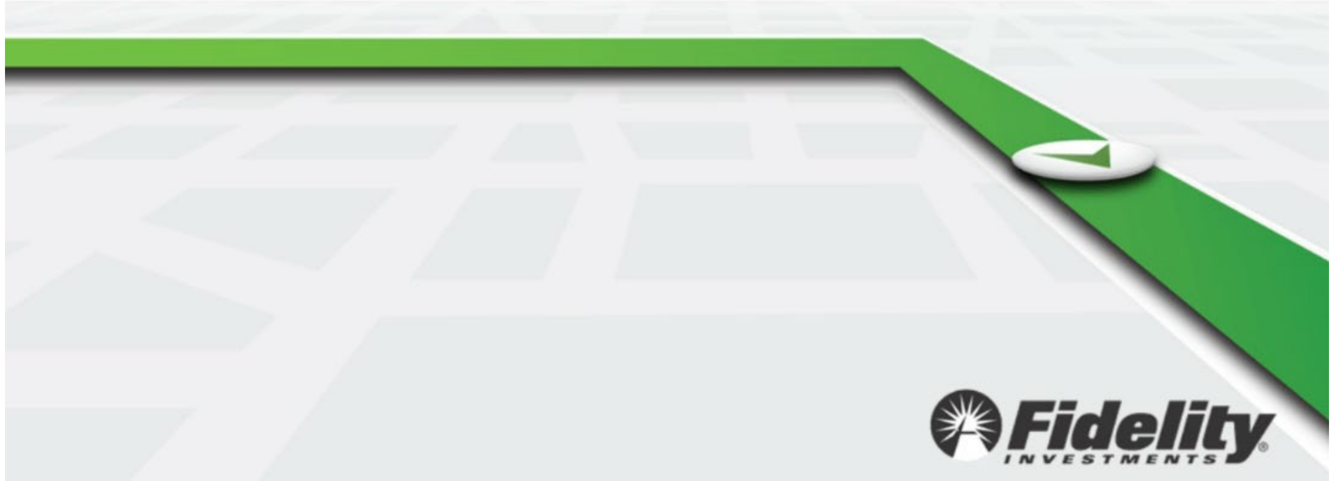
Schwab Personal Choice Retirement Account® (PCRA)

charles SCHWAB

EMPOWER

Empower Brokerage

Fidelity BrokerageLink®



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Hello. My name is Ric Lager. I have been an investment advisor for over 39 years. The last 23 years as a Registered Investment Advisor. During that time, I have devoted the largest part of my practice to providing investment advice to legal professionals who participate in their firm's 401(k).

I opened my first law firm partner 401(k) advice account in July 1999. The partner was a brokerage client of mine who asked me to look over his 401(k) mutual funds.

My law firm 401(k) advice practice soon exploded. I found a huge interest in 401(k) advice from busy law firm professionals. And other 401(k) participants in their household.

As you well know, the practice of law places tremendous strains on personal time and family life. My legal profession clients remind me frequently. Law school did not train them how to manage 401(k) accounts.

My content goal today is to end your confusion and frustration. Trying to navigate and manage your firm's 401(k) menu. When c-e-l-e-s-q reached out to me, I jumped at the opportunity to share what I know.

I am thankful to them for this forum. To present my law firm 401(k) investment management content to the wider legal community.

I am an independent investment advisor. I receive no commission to sell products. I am not affiliated with a broker dealer. Or third-party investment management firm. Like you, I function as a fiduciary. Providing value to my clients based upon my years of experience, research, and technical skills.

In this program, I want to make you aware of the mutual fund investment management technology available today. To improve your 401(k) mutual fund decisions.

As of today, you are no longer a part-time money manager with limited resources. You are going to learn tips and tricks. To dramatically improve the long-term investment management decisions necessary to preserve and grow your law firm's 401(k) account.

There is no "one size fits all" law firm 401(k) solution. Each law firm 401(k) includes different asset classes. And different mutual funds. Today, the best I can do is to provide general 401(k) investment management content.

I want to give you the confidence to become more engaged in the management of your 401(k). To make you aware of the same asset class and mutual fund selection tools used by large institutional money managers.

Last, I want to "give back" to the legal community. To show my appreciation. For how hard you work to contribute to your firm's 401(k) each month and each year. You deserve better 401(k) investment results in the future.

So, let's get started.

How Legal Professionals Think

Here is what I have learned over the years about how legal professionals think. See if any of these observations fit your thoughts and actions.

• All through your adult life you have been a high-achiever and problem-solver. You have met your work challenges and found creative solutions to your clients' problems. The inability to take control over your 401(k) is hugely inconsistent with your professional success and career achievements.

• Calling your own shots in your 401(k)—instead of guessing at what to do next—is what you really want.

• The people around you must be experts in an area of your life where you really do not have the time or expertise. You should be able to count on them to be honest and straight-forward. And to work in your best interest.

• When the burden and responsibility of managing your 401(k) is lifted, you will be able to focus more on your family and career.

• You are perfectly capable of understanding the timing and complexity of 401(k) investment management decisions. But you are unaware of the current generation of mutual fund analysis tools.

Key Questions for Your 401(k) Now

Let's expand the list to include the most common questions I hear from law firm 401(k) participants.

- **How do I choose "WHAT TO BUY" on my firm's default 401(k) mutual fund menu?**

- **Why do I need rules on "WHEN TO SELL" a 401(k) mutual fund I currently own?**

- **How does my annual 401(k) investment performance compare to the popular stock market averages? Or to other 401(k) mutual funds available to me?**

- **Why do I find an endless stream of financial jargon on my 401(k) statement and 401(k) provider web site?**

- **Why do I procrastinate making 401(k) mutual fund decisions?**

Some of these questions may sound or feel familiar to you.

Don't worry; By the end of this hour your will have the confidence to answer these questions. Using technology to change your 401(k) investment management decisions forever.

Your 401(k) may feel like a savings account. But it is a powerful, tax-advantaged investment account. Too many 401(k) participants remain in a "buy-and-hold" mode. Hoping their 401(k) will magically provide them with enough money to retire.

Hope is not an effective long-term 401(k) investment management strategy. I am here today to introduce to you the resources for a rules-based and disciplined 401(k) investment management strategy. To both preserve and grow your 401(k) for the remainder of your working career and beyond.

From now on, you are a 401(k) investor and not a saver. This change of mindset will add tens of thousands more dollars to your 401(k). For the remainder of your working career.

You spend too much mental and emotional energy. Avoiding making 401(k) investment management decisions. Or making none at all. The result is a lot of wasted time, effort, and frustration.

The best way to improve your frame of mind is to give you peace of mind. With the best 401(k) mutual fund analysis technology available. To make logical, disciplined, and organized 401(k) mutual fund buy and sell decisions.

Once-and-for-all you can deal with each of the following 401(k) investment management issues.

401(k) Investment Management Issues

• NO TIME to watch your 401(k) investments. Other things in life are more important.
The truth is that you do not have time in your life to do the things you WANT to do. Let alone the things you MUST do. Managing money is what I do for a living. And I know how much time it takes to do it properly.

• NO ACCESS to the latest generation of investment management technology. To help identify areas of stock market outperformance and

underperformance. Over the last few years, you have lost out on tens of thousands of dollars of 401(k) investment gains. Because you did not know WHAT TO BUY.

• NO GAME PLAN to preserve your 401(k) in the early stages of a stock market decline. You periodically lose large chunks of your 401(k) principal. Because you remain 100% invested at all times. You do not know WHEN TO SELL.

NEXT SLIDE

• NO INTEREST in managing your 401(k). At this stage of your working career, you know if you are interested in managing your 401(k) on your own or not. You were making good progress. Then came 2022. You saw several years of 401(k) investment gains and contributions vanish in a few weeks.

• NO KNOWLEDGE of the 401(k) investment management tools available. Does anyone here change the oil on their car? Fix their laptops? Root canals? Heart surgery? Face it, we live in a world of specialists. I would not survive ten minutes in your law office doing what you do for a living. No offense, but there is no way on earth you know as much as I do about how to manage a 401(k) menu of mutual funds.

•NO EMOTIONAL WHEREWITHAL to make 401(k) investment management decisions. By nature, humans are emotional creatures. And this is especially true when it comes to managing your 401(k). I am just as emotional as you are. The big difference is I support my 401(k) investment management decisions with logical, independent analysis. I have the confidence to make those decisions when necessary.

• NO RELATIONSHIP with an independent financial advisor. A fiduciary responsible for your 401(k) preservation and annual investment performance.

Your legal career requires experience and expertise. 401(k) investment management is no exception.

Your past 401(k) investment performance cannot be fixed. Your new 401(k) principal preservation and growth strategy will be in place soon. The annual 401(k) investment returns over the remaining years of your working career will determine the timing and comfort level of your retirement.

401(k) Investment Management Improvements

To dramatically improve your future 401(k) investment management decisions, you need to consider the following improvements.

• Understand the things that matter.

• Understand the things that do not matter.

• Understand when the stock and bond market risk levels change.

• Understand the 401(k) investment management tools available.

Change Your 401(k) Mindset

Change your 401(k) mindset. To overcome this list of limitations.

- **If you think your 401(k) mutual fund problem will correct itself over time, then you will continue to ignore it.**
- **If you do not know the cost of your 401(k) mutual fund problem, then you will not likely take action to correct it.**
- **If you do not think your 401(k) mutual fund problem is big enough to worry about, then you will not likely seek a solution.**
- **If you think your 401(k) mutual fund problem cannot be solved, then you will not likely keep your eyes and ears open for a solution.**
- **If you think the solution to your 401(k) mutual fund problem will cost too much, then you will not act.**
- **If you think the solution to your 401(k) mutual fund problem is worse than your problem, then you will ignore suggestions from investment professionals who offer solutions.**

Here is the main reason that law firm 401(k) investors continue to muddle along. They have never taken the time to calculate how much money it has cost them over the years to own the wrong 401(k) mutual funds.

A few years ago, I helped design a software tool called the "Cost of the Problem."

If you provide me with a copy of your law firm's default 401(k) menu, and a copy of your most recent 401(k) statement, the "cost of the problem" calculation would be the topic of our next conversation.

You have been exposed to millions of financial service firm marketing messages. Your head is filled with silly myths, untruths, and outright lies. That is why you often struggle to make timely 401(k) investment management decisions.

The solution is an independent, third-party, fiduciary analysis of the mutual funds on your default 401(k) menu. The only way your 401(k) mutual fund investment management decisions will improve. To give you the confidence to preserve and grow your 401(k). With less pain and heartache.

This "cost of the problem" tool puts a dollar value on your current 401(k) mutual fund investment management problem. This calculation provides the answer to an especially important question you may have never asked yourself before.

"What dirty, rotten, no-good thing will happen in my 401(k) if I continue to own this mutual fund?"

The answer to that question, in dollars, is the "cost of the problem."

Here is the truth you have never been told. There is a large investment performance gap between the best mutual funds and the worst mutual funds on your default 401(k) menu.

This gap is the basis of the "cost of the problem." The dollar amount of how much it has cost you to own the wrong 401(k) mutual funds over the years.

Managed S&P 500 "Cost of the Problem"

This chart compares two 401(k) investment management strategies. Each one owns the same 500 stocks in the S&P 500 index.

You have an S&P 500 index mutual fund option on your law firm's default 401(k) mutual fund menu. Here is a different way to look at that same mutual fund.

The blue line on the chart represents a stock market risk-managed model. This model decreases stock market exposure during stock market declines. The ability to scale back the risk of a 100% investment in the S&P 500.

The black line on the chart represents a 100% investment at all times in the S&P 500 index mutual fund.

Each model invested a total of $100,000 on January 2nd, 2001.

On the far-right hand column at the bottom, you will see the calculation of the investment performance gap or "cost of the problem."

In the stock market risk-managed model, the $100,000 grew to $2,279,052 over the period. In the buy-and-hold 100% invested all the time model, the $100,000 grew to $481,342 over the same time period.

The yellow box is "the cost of the problem." This 401(k) participant would have another $1,797,710 if he or she owned a risk-managed S&P 500 model. Instead of hanging on to the same S&P 500 index mutual fund at all times.

It is important to note here. These two examples own the exact same 401(k) mutual fund. The blue line manages stock market risk. The black line hangs on for dear life. No rules, no process, and no investment management discipline.

Here is the key takeaway. The blue line is "buy-and-hold" with strong consideration to stock market risk. The black line is "buy-and-hold" with no consideration to stock market risk.

The bottom line is that there is a better way to "buy-and-hold." And here is the dollar amount proof. The gold box and the "cost of the problem."

Now, let me ask you a question. If you had another $1,797,710 in your 401(k) account today, would your mental and emotional state regarding your retirement readiness improve?

The financial impact of this example is large enough to justify an independent, third-party, fiduciary analysis of your current 401(k) mutual funds. Along with a stock market risk management assessment.

The "cost of the problem" clearly shows in dollars how much money it has cost to "buy-and-hope" 100% of the time. With no regard to the preservation of 401(k) principal during stock market declines.

Here is the problem. This law firm 401(k) participant took 100% of the stock market risk. But does not have the investment returns to show for it. Because there was no stock market risk-management plan in place.

Maximum Drawdown

For sure, the dramatic "picture" of the "cost of the problem" calculation is the gold box. But there is another important calculation here. The ability to preserve your 401(k) principal during stock market declines.

Focus your attention on the far right, under the Maximum Drawdown header. The worst principal loss for the stock market risk-managed 401(k) model was minus 17.4% late last December. Versus the S&P 500 Index losing over 55% of its value at one point on March 9, 2009.

Losing that amount of 401(k) principal is not survivable for most individual investors. Especially close to their desired retirement date and age.

CAGR and MaxDD
Up and Down Capture

Let's summarize the most important calculations on this slide. You don't need to get bogged down in all these details. Focus on the yellow highlighted columns.

Focus on the far left column. The CAGR is the Compounded Annual Growth Rate. Notice the large gap here. The stock market risk-managed S&P 500 model investment returns are more than double the "buy-and-hold" S&P 500 index mutual fund over this time period.

Now focus on when the stock markets are going down. The MaxDD column. These are the same numbers from the previous slide. Much less 401(k) principal loss in the stock market risk-managed S&P 500 model.

Owning the right 401(k) mutual funds improves your annual investment returns. But it also limits your 401(k) losses. You will see those numbers in the last two columns on the right.

Up Capture and Down Capture. The answer to your ultimate 401(k) investment management dilemma.

"I want to own 401(k) mutual funds that participate in as much stock market upside as possible. At the same time avoiding as much of the stock market downside as possible."

As you see here, the stock market risk-managed S&P 500 model captured over 80% of the stock market upside. And only 32% of the stock market downside over the same time period.

Whereas the "buy-and-hold" S&P 500 index mutual fund investor captured 100% of the stock market's upside and downside. A 401(k) roller coaster ride for sure.

So, how do you fix your 401(k) now?

Tournament Bracket

Do you fill out a NCAA Men's College Basketball Tournament "March Madness" bracket in your office each year? Maybe you participate in a pool with a group of friends.

Seeding is a way for the NCAA Men's Basketball Tournament Committee to make sure that the best teams do not end up meeting each other too early in the tournament. The NCAA does not want to threaten television ratings and advertising revenues for the later games in the tournament.

A team with a high seed or ranking is the stronger team. Based upon complex and intensive qualitative and quantitative evaluations. The higher-seeded team has more talented players and better coaching than a lower-seeded team.

Here comes the disclaimer. Past performance does not guarantee future success. But it can be a good starting point for the average fan's tournament bracket picks.

NDW NCAA image

Here is some data from CBS Sports and ESPN regarding the success of each of the 16 seeds advancing through the NCAA tournament. These numbers are updated through the 2022 tournament.

No surprise, number one-seeded teams have won the greatest percentage of games. At just under 80%.

The top three-seeded teams have combined for a record of 1115 wins and 411 losses. A winning percentage of just over 73%.

By contrast, the bottom three-seeded teams have a combined win total of just 39. Or a little over 8% of their contests over 36 years.

The top five-seeded teams have produced a winning percentage of 68%. While the bottom five have won just 17% of their games.

There is a famous investment research study authored by Benjamin King. You don't need any more to read. So, let me tell you how it relates to the investment management decisions in your firm's 401(k).

The study looked at the risk of individual stocks. What caused the price of the stock to move? The study found that 80% of the stock risk is associated with

the overall stock market and the sector. While only 20% was company stock specific risk.

The other part of the study found that the average investor spends 80% of their time evaluating company-specific information. And just 20% of their time evaluating stock market and sector risk.

There is always a chance you can guess correctly. That one of your 401(k) mutual funds will outperform the popular stock market averages. But it makes more sense to have history on your side. And the odds of success.

The NCAA tournament selection committee has its own proprietary ways of ranking teams. With input based upon head-to-head games earlier in the season and overall recent performance.

Your default 401(k) mutual funds can be ranked. By asset class and individual mutual fund. These funds can be "seeded" just like these tournament basketball teams. The seeding is based on investment performance success against the overall stock market. Against other mutual fund asset classes. And head-to-head analysis versus their mutual fund peers.

The higher the seeding of your 401(k) mutual fund, the stronger the ranking. Similar to the NCAA tournament, we know that history shows those top seeds perform better than the lower seeds. There are upsets, but the trend favors the higher seeds. So that is where you should focus your 401(k) mutual fund choices.

Here are the mutual fund investment analysis tools that will seed your law firm's default 401(k) mutual funds.

Morningstar Style Box

I am not sure if you have ever seen this chart before. It is from Morningstar, the very well-respected financial services research firm.

The vertical axis is divided into market capitalization. About 70% of the stocks in their database are large, 20% are mid and the last 10% are small.

The horizontal axis is divided into valuations. Price-to-earnings and price-to-book-value are calculated here. Each stock is classified as value, blend or growth.

D.A.L.I.

You know from experience, there are only four broad investment asset classes available in your 401(k). Domestic Equities, International Equities, Fixed Income, and a Money Market.

This chart shows the broad 30,000 foot view of the six broad asset classes available to investors. Ranked from left to right. Dark green is the best. Dark red is the worst, with no reason to own these asset classes now.

Now we know where to broadly invest your 401(k). How does this information relate to your law firm's default 401(k) menu?

Dynamic Asset Level Investing

This graph is a more detailed breakdown of the same asset class rankings. This image includes rankings of stock market sectors. Green is good, yellow is O.K., and red is bad. You should keep your current 401(k) mutual funds in a green stock market sector.

In a rising stock market, lower ranked mutual funds will trail the popular stock market benchmarks. In a falling stock market, those same poor mutual funds will fall at a faster rate.

Not all law firm 401(k)'s provide mutual funds in all asset classes. So, I provide each law firm 401(k) advice client with an Asset Class Coverage Map. This slide is a screen shot from a law firm 401(k) where I have a handful of clients.

Asset Class Coverage Map

The green boxes represent asset class coverage of this firm's default 401(k) mutual fund menu. The grey boxes represent no mutual funds available in these asset classes.

Also notice the coverage grades. A poor grade indicates your law firm lacks complete asset class coverage.

Given the grade of "F" for this law firm 401(k) menu, how can you best determine "what to buy?"

Custom Report Current Rankings

This grid ranks the default menu of 401(k) mutual funds at this law firm. It provides a clear ranking of which mutual funds are outperforming. And even more importantly, which ones are not. Green is good and red is bad.

Does anyone in this group play fantasy football? If you do, each week you pick the best players available. Based on their most recent production. And the opportunity for them to perform that week versus the competition.

Picking the best 401(k) mutual funds to buy is no more complicated than picking the highest seeded teams in the NCAA Men's Basketball Tournament. Or the best players each week for your fantasy football team.

You don't need to make mutual fund changes each week. You just need to be aware of the best mutual fund asset classes to own. And which of your 401(k) mutual funds are in the best asset classes.

"In order to comply with NY regulations, attorneys looking for CLE credit in NY will need to be able to provide a code. This code is not intended for the West LegalEdcenter audience either live or on-demand. I will read this code twice and only twice and cannot repeat it or email it to you, so please make note of it. The NY State code number is RL33116-71023, again, the NY state code number is RL33116-71203."

These rankings are not the traditional Wall Street diversification, asset allocation, and rebalancing mumbo-jumbo. You know the drill. The three pillars of so-called investment management.

Let me cut into little pieces each of these investment management myths. And explain exactly how much harm they can do to your firm's 401(k) account over the long term.

Diversification—Asset Allocation—Rebalancing

DIVERSIFICATION

Diversification sounds like one of those intimidating financial industry jargon words that requires an MBA to understand. It is a widely promoted investment management strategy. Spreading out your 401(k) account over different sizes and styles of mutual funds.

As you have seen, your firm's 401(k) mutual fund menu includes Large, Mid, and Small capitalization. These are the sizes of companies. It also includes Value, Growth, and Blend. These are styles of companies.

The combination of sizes and styles of companies make up the traditional mutual fund asset classes. Each mutual fund on your default 401(k) menu falls into a different asset class.

Let me be clear. I have no idea of the mutual funds offered in your firm's 401(k) plan. But it is highly likely you own at least two or three mutual funds now that are in the wrong asset class.

You did not pay close attention when you bought them. Worse, you have not kept up with the changes in the U.S. economy, stock, or bond markets since you bought them.

You enjoyed "beginner's luck" for a while. A rising stock market bailed you out over the last few years. At the same time interest rates fell to historic low levels.

In 2022, the 401(k) mutual fund music stopped. Stock prices fell and interest rates rose. At the same time. Diversification lost you more 401(k) principal at a faster rate. Exactly the opposite of the advertised and promoted benefits of diversification.

ASSET ALLOCATION

Asset allocation is a lot like diversification. Spreading out your 401(k) mutual funds over more than one asset class. Stock, bond, and international mutual funds.

The strategy is to invest fixed percentages of your 401(k) account over all mutual fund asset classes. Whether the past investment performance requires consideration or not.

A good example of asset allocation is your answer to this question. Think of your favorite professional sport. Now think of the worst professional team in that sport.

Here is the question. Would you bet money on that team to win the next Super Bowl? World Series? NBA Finals? Stanley Cup?

Of course, you would not. Asset allocation requires you to place a fixed percentage of your 401(k) in the worst mutual fund. Every year. Even though there is no common sense reason to own any amount of that poor 401(k) mutual fund.

REBALANCING

I saved the worst investment management strategy for last. Rebalancing makes even less common sense than asset allocation. Investing your hard-earned 401(k) money in the worst mutual fund on your 401(k) menu. Just because the calendar tells you to.

First, you pick a random date. The date I have heard most often over the years is the anniversary of your hire date at the law firm.

On that date, you "rebalance" your 401(k). You sell part of your mutual fund "winners." You then take the proceeds from those sales and invest more money in the mutual fund "losers" in your 401(k). All with the hope that their investment performance will soon improve.

I hope you heard me correctly. A computer model or pie chart on a pre-determined date will rebalance your 401(k). The exact opposite of what common sense would dictate you do.

You sell part of the best 401(k) mutual funds you own. And buy more of the worst mutual funds available. Just because your rebalancing date arrived!

There is no need to own four, six, or more 401(k) mutual funds. Your 401(k) principal is at higher risk. And you may lower your annual investment return.

If you get bad food or poor service at a restaurant, do you "rebalance" your dining experience by revisiting the same restaurant again? In the hope that the food and service will improve.

You would not put yourself through another poor dining experience. Rebalancing your law firm 401(k) using a computer model pie chart on a pre-determined date pulled out of thin air suggests that you do.

Banging Head Against the Wall

These three widely promoted investment management strategies remind me of an old joke. The one about the guy who has a severe headache. One day he can't take the pain anymore, so he visits the doctor. The doctor asks him how he thinks he got the headache. The guy says that he constantly bangs his head against the wall.

The doctor tells the patient that before he prescribes any medication, he should try to stop banging his head against the wall. The guy goes home and stops banging his head against the wall. A couple of days later, his headaches suddenly stopped.

All three of these investment management strategies are theoretical. Academically based concepts. Just like the practice of law. Good on paper. But do not always translate to real-life applications.

Stop banging your head against these three 401(k) investment management walls.

Diversification is promoted to spread your 401(k) around to different mutual funds. To limit stock and bond market risk. It looks good in the textbooks. It destroyed your 401(k) principal last year.

Asset allocation is promoted to own all mutual fund asset classes all the time. Regardless of investment performance. Bad mutual funds will "get better" sometime soon. No one knows exactly when. But soon.

Rebalancing is promoted to periodically sell the best 401(k) mutual funds you own. And buy more of the worst mutual funds. Your anniversary date magically provides optimum buy and sell decisions.

Three textbook investment management strategies. All three are likely to disintegrate your 401(k) principal. And miss the annual 401(k) investment returns you deserve.

The "cost of the problem" example was clear. The best way to diversify, asset allocate, and rebalance your 401(k) is to own the best mutual fund asset classes. And the highest-ranked mutual funds.

So, how do you select the best mutual funds on your law firm's default 401(k) menu?

NDW Asset Class Group Scores

This chart ranks mutual fund asset classes. By size and style of mutual fund. Picking the right 401(k) mutual funds starts with knowing what asset class to own. We have seen multiple examples of this fact earlier.

Green is good, yellow and red are bad. That is all you need to know. Mutual fund asset class technical score rankings clearly identify the best 401(k) mutual fund asset class to own. Any time you want to know.

Now let's see how these mutual fund asset class rankings can improve your individual 401(k) mutual fund picks.

NDW Matrix

This image is a matrix. Ranking each default 401(k) mutual fund versus every other available mutual fund. In a head-to-head investment performance comparison.

This law firm 401(k) has 29 mutual fund options. So, this matrix ranks each mutual fund against the other 28 mutual funds.

Dark green is the highest ranked, with light green second. You want to stay away from the pink and red boxes.

I use this tool for my 401(k) advice clients who are visual learners. This image clearly shows the top mutual funds to own. And the mutual funds to stay away from.

Notice that a large part of these rankings is the mutual fund technical score. Here is why that technical score is important to you.

NDW Fund Score Analysis

Every mutual fund on your law firm's default 401(k) menu is assigned a mutual fund technical fund score between 0 and 6. With 6 being the best score possible. The composition of the score can be broken down into three main components:

Trend Analysis. Is the mutual fund price going up or down?
Relative Strength versus the overall market. Is the mutual fund price keeping up with the overall market?
Relative Strength versus peer asset class mutual funds. Is the mutual fund price keeping up with its peer group?

NDW Portfolio Technical Score

This chart ranks each of your law firm's default 401(k) mutual funds by technical score. Again, 6 is the best score possible. The higher the score, the better the technical ranking of the mutual fund.

Mutual funds with scores of 0-2 you should sell. Mutual funds with scores of 3-4 you can continue to hold. Mutual funds with scores of 5-6 you can buy.

The technical score ranking of all your 401(k) mutual funds. Easily answers the age-old 401(k) account question of "what do I buy?"

Remember my fantasy football example. You use a ranking system to pick your best players for your team each week.

Mutual fund technical scores are like fantasy football player rankings. The technical score combines mutual fund asset classes and individual mutual funds. Ranked in a single number.

Let's look at some real-life case studies of law firm 401(k) participant accounts.

Case Studies

Each of these case studies is a factual and real-life example. Of a law firm 401(k) participant I met. Each one shared a copy of their firm's default 401(k) mutual fund menu. Along with a copy of their current 401(k) holdings.

Let's immediately go to the "cost of the problem" calculation. To analyze the 401(k) mutual fund choices of each of the three 401(k) participants.

WWE Law Firm: 50% S&P 500 and 50% Large Cap Value

This individual investor participates in the WWE law firm 401(k). The black line on this chart represents the participant's current investment of 50% in a Large Cap Value mutual fund and 50% in an S&P 500 Index mutual fund.

The blue line on this chart represents a mutual fund model invested in the three highest ranked mutual funds available on the WWE default 401(k) menu. The gold box is the dollar amount of investment performance difference. Or the "cost of the problem."

"Cost of the Problem" CAGR and Max Draw Down Up and Down Capture

XYZ Law Firm: 100% Fidelity Target Term 2040

This individual investor participates in the XYZ law firm 401(k). The black line on this chart represents the participant's 100% current investment in the Fidelity Target Date 2040 fund. This 401(k) participant picked a desired retirement date several years in the future.

Same thing here. The blue line on this chart represents a mutual fund model using the highest ranked funds in this 401(k) plan. Look at the huge dollar amount of the "cost of the problem."

"Cost of the Problem" CAGR and Max Draw Down Up and Down Capture

ABC Law Firm: 25% LCV, S&P 500, Fixed Income, and International

This individual investor participates in the ABC law firm 401(k). Here is an example of the classic "asset allocation pie chart diversification" approach.

The black line represents a 401(k) invested in 25% increments in four different mutual fund asset classes. Large Cap Value, S&P 500 Index, a Bond mutual fund, and an International mutual fund.

The black line represents the classic "set-it-and-forget-it" 401(k) investment management strategy. The blue line is the same top-ranked mutual funds model. Again, the gold box "cost of the problem" calculation shows the clear winner in total dollars.

"Cost of the Problem" CAGR and Max Draw Down Up and Down Capture

These case studies are examples of real-life individual 401(k) law firm accounts I have analyzed. A similar case study can be generated for your law firm's default 401(k) mutual fund menu. And your individual 401(k) account mutual funds.

A few years ago, I started asking all my new 401(k) advice clients the following question early in our relationship.

"How much of your 401(k) can I lose, and you still remain my friend and client?"

"Get Your Money Back" Chart

Here is why this question is so important in the current stock and bond market environments.

I included this chart in a 401(k) advice book I wrote a few years ago. This is a stark reminder of the devastating effect of principal losses in a 401(k) account.

Here are two quick statistics for you. Each one relates to your firm's 401(k).

Depending on the study, between 80 and 85 percent of all mutual funds do not keep pace with their asset class benchmark. For most of the stock market mutual funds on your firm's default 401(k) menu, the S&P 500 index is the benchmark.

In 2022, the S&P 500 index lost just under 20% of its value. The Morningstar U.S. Core Bond Index lost around 13% last year. Even if you owned a balance of stock and bond mutual funds last year, your 401(k) mutual funds lost money.

Here is an important side note. Something to remember about the deception that goes on in your 401(k). Each year you add personal 401(k)

contributions. And you receive at least some level of firm-matching 401(k) contributions.

Your 401(k) account balance goes up every year. By the sheer fact of adding more money. Those additional contributions can hide your true 401(k) investment performance numbers.

Adding more money every year to your firm's 401(k) hides the poor mutual fund investment returns. And how much risk you are taking to get those investment returns.

If you deducted your total annual 401(k) contributions, and just calculated your investment returns (or losses), you would be incredibly surprised. I don't mean to scare you with these numbers. But I do mean to make you aware of how investment management fiduciaries report annual investment returns.

When you suffer at 20% loss in your 401(k), you need a 25% rate of return to "get your money back." If your 401(k) losses last year were closer to 25%, you need a whopping 33% or more investment return. Just to get back where your 401(k) began.

This is the real math of 401(k) losses. And the devastation of 401(k) principal you need to avoid.

"Get Back To Even" Formula

For those in the group that are math wizards, here is the mathematics involved. Many of my 401(k) advice clients had never seen this calculation before.

STOP LOSS: INSURANCE FOR YOUR 401(k)

It is entirely possible to survive the next historic stock market correction. To avoid losing the last several years of personal and firm-matching 401(k) contributions. Along with several years of stock and bond market investment gains.

When is the best time to buy hurricane insurance? The answer is before hurricane season starts. In the case of your 401(k), put some insurance in place before the next great stock market correction. Or a dramatic rise in interest rates.

Twice in the last 21 years…from March 2000 to October 2002 and from October 2007 to March 2009…stock market investors lost over 50% of their

account value. A repeat of those declines would be a catastrophe for law firm 401(k) participants within a few years of retirement.

The last great U.S. stock market decline began in October 2007. It took until May 2013…over five years… to "get back to even" for 401(k) investors.

What percentage or dollar amount of 401(k) principal loss are you willing to accept going forward? Commit to "doing something" if your 401(k) account balance drops below that level.

Every 401(k) has three elements. The first one is your 401(k) sponsor, your law firm. The second one is your 401(k) provider, Fidelity, Schwab, Vanguard, etc. The last one is you, the 401(k) participant.

Of those three elements, who do you really think is the most concerned about the preservation of your 401(k) account?

I challenge you to put a dollar amount or percentage loss on your level of concern.

Every major asset you own is insured. You own life insurance, health insurance, home insurance, and car insurance. You can also insure your 401(k).

Your home or apartment has security systems, motion detectors, smoke detectors and radon detectors. There is even a doorbell now that allows you to view the front door of your home from your cell phone.

Speaking of cell phones, don't forget your cell phone protection plan. Most people pay a premium every month in case they drop, flush, or run over their cell phone.

The most expensive cell phones are over $1,300. Do you have more than $1,300 at risk in your 401(k) now?

The point is, we pay every month and every year. To protect the most important people, places, and things in our lives. Why don't you do the same thing with your 401(k)?

An independent, third-party, fiduciary-level investment advisor can provide a 401(k) insurance policy. Principal losses in your 401(k) can be limited. Just like the deductible amounts on your insurance policies.

When you receive your annual homeowner's insurance premium notice, do you remind yourself what a terrible deal your homeowners insurance premium was last year because your house did not burn to the ground?

No, you don't. Your annual home insurance premium protects one of your largest financial assets from a disaster. Think of 401(k) investment advisory fees as an annual 401(k) insurance premium. That protects your 401(k) principal from a disaster.

Put a stop loss level on each of your 401(k) mutual funds. Or on your total 401(k) account value. Adjust the stop loss levels upward or downward as the stock and bond market risk levels change.

I use stop loss levels of 10-15% for my 401(k) advice clients. Under no circumstances will an individual mutual fund loss exceed those levels. Or the overall 401(k) account value fall more than those percentage limits. Regardless of how far the stock market falls. Or interest rates rise.

You could not afford to rebuild your entire house and replace your personal belongings. That is the reason for your home insurance. At this stage of your working career, can you afford to rebuild the current value of your 401(k)?

SDBA

One of the more common complaints among law firm 401(k) participants is the poor quality and high annual costs of their default 401(k) mutual funds. If you fall into that group, you are ready for a self-directed brokerage account in your 401(k).

The good news is that most law firm 401(k)'s offer a self-directed brokerage account. The problem is that few people really understand what it is. Or why they might want to consider this account. Let's start with the basics.

A self-directed 401(k) account is a brokerage account in your 401(k). Just like the brokerage account you have outside your 401(k).

You are not stuck to the limited menu of default 401(k) mutual funds. Most self-directed 401(k) brokerage accounts allow you to invest in individual stocks, bonds, ETFs. Along with a wide choice of mutual funds.

A self-directed 401(k) brokerage account solves the mutual fund asset class coverage map problem. Lowers your annual costs. Increases your investment options. And can go a long way towards improving your annual 401(k) investment performance.

The self-directed 401(k) brokerage account allows you to establish an investment advice relationship with an independent, third-party, fiduciary-level investment advisor. Not affiliated with your law firm or your 401(k) provider.

Think about the mutual fund asset class and analysis tools I have shown you today. Your 401(k) investment management decisions will be logical and disciplined. Timely when your 401(k) needs your attention the most.

In most cases, your investment advisory fees can be paid directly from the self-directed 401(k) brokerage account in pre-tax dollars. No writing a check, charging your credit card, or ACH withdrawal from your bank account.

Schwab—Empower—Fidelity Logos

Find out if your law firm offers the SDBA (self-directed brokerage account) option as part of the default 401(k) menu. This option is sometimes referred to as a brokerage window.

If your law firm 401(k) provider is Schwab, you are looking for the Schwab PCRA (Personal Choice Retirement Account). If your 401(k) provider is Empower, look for the Empower Brokerage Account. If your 401(k) provider is Fidelity, you are looking for the Fidelity BrokerageLink account.

Sometimes, all you need to do is ask someone in Human Resources or Employee Benefits about a self-directed 401(k) brokerage account option. The account can be "turned on" for you quickly and easily by your firm's 401(k) provider. All you need to do is ask the right people.

Some law firm 401(k)'s limit the dollar amount or percentage of a retirement plan account balance that can be moved to a self-directed brokerage account. Limits I have run into are in the 50% to 70% range of your 401(k) account value.

Before you consider this option, ask some questions about the annual fees. Typically, the annual fees for a self-directed 401(k) brokerage account are between $50.00 and $100.00 per year.

The annual costs are worth the money. It is far more expensive to diversify, asset allocate, and rebalance. Into some of the worst mutual funds on your default 401(k) mutual fund menu.

Self-directed 401(k) brokerage accounts provide you with peace of mind. You can own the best 401(k) investment options. At the lowest possible cost. With stop losses to preserve 401(k) principal. And establish a 401(k) investment advice relationship.

SUMMARY

I need to wrap it up here.

You can improve your law firm 401(k) investment management decisions. Change your mind about a few things. You now have the right resources. To get a second opinion on the 401(k) mutual funds you own now.

If you would like to share a copy of your default 401(k) mutual fund menu with me, I can have the full analysis back to you in a few days. Make sure to let me know if a self-directed brokerage account option is available to you.

I would gladly welcome any comments or questions. Or to fill in any missing information or examples. I am here to help. Reach out to me at any time. You can find my contact information below.

Thanks for your time and attention today. I hope I was able to provide you with some useful 401(k) investment management information for the future.

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