Money & Business

B1
August 1, 2005
MONDAY
The Flint Journal

Money management

The big question: When to call in the pros

By Todd Seibt
tseibt@flintjournal.com • 810.766.6315

There comes a point in every investor's life, every saver's life, where it's time to leave the do-it-yourself route and call in the pros.

Here are some questions to and answers from a local pro, David Kudla of Mainstay Capital Management in Grand Blanc:

Q: What does Mainstay Capital Management do?

A: Mainstay Capital Management is an independent, fee-only investment adviser based in Grand Blanc.

We currently manage more than $300 million for our clients in 401(k), IRA and nonretirement accounts. We regularly conduct 401(k) educational seminars.

Q: Who are your main customers?

A: We specialize in the management of individual 401(k) accounts for employees and retirees of leading automotive industry companies, including General Motors, Delphi, Ford, Visteon and DaimlerChrysler. Currently, more than a thousand automotive industry employees and retirees are clients of Mainstay Capital Management.

Q: What do you do for them?

A: Based on a client's objectives, risk tolerance, time horizon, and other factors, MCM develops an appropriate investment portfolio and manages it for the client on an ongoing basis.

The GM, Delphi, Ford, Visteon, and Daimler-Chrysler 401(k) plans are among the best in the country in that they provide participants with a wide range of investment options.

The investment options available to individuals outside of their 401(k) plan are even more complex. Many individuals do not have the time or inclination to constantly monitor and manage their 401(k) account or other investments.

Mainstay Capital Management was formed to help investors give their retirement savings plan and other investment accounts the thorough research, analysis and management they deserve.

Q: What does this cost?

A: Account management fees are based on a percentage of assets under management. Annual management fees for 401(k) accounts start at less than $500 a year.

Q: What are the most common 401(k) mistakes people make?

A: Borrowing from their 401(k) account, low contribution rates and a lack of understanding of 401(k) plan provisions are all on the list.

But, first and foremost is inadequate diversification. Some 401(k) plan participants simply hold too much of their own company's stock.

The Kudla file

David Kudla, 42, is chief executive officer of Mainstay Capital Management, LLC in Grand Blanc. The firm is a fee-only, independent, Registered Investment Advisor managing more than $300 million in assets. He is a Chartered Mutual Fund Counselor, and has a master's degree in management from Stanford University and a master's of science degree and bachelor's degree from the University of Dayton.

David Kudla

Details: www.mainstaycapital.com or (866) 444-6246.

Others attempt to diversify their portfolio by allocating their assets among a list of mutual funds available in their plan. However, simply holding a large number of mutual funds in a portfolio does not necessarily provide good diversification.

It is important to understand the level of correlation of each portfolio holding relative to the others.

Portfolio diversification is vitally important for all investors and a topic we emphasize in great detail in our educational seminars.

Q: Some people have substantial assets in a 401(k). Is there a "tipping point" where they should begin to consider professional advice?

A: Whether someone is managing their 401(k) account on their own or employing the help of an investment adviser, it is important to take it seriously from day one.

For most people, their retirement savings plan account represents the largest investment account they will ever have.

The decisions a 401(k) plan participant makes in management of their account, even in the early years, can have a tremendous impact on the eventual size of their retirement nest egg.

Q: What advice would you have for someone just starting out with a 401(k)?

A: Invest as much as you can afford.

With the effect of compounding, the dollars you contribute in the early years will have a far greater impact on the growth of your 401(k) account than the dollars contributed later in your career.

At a minimum, contribute to the extent that your company matches your contributions.

Q: What advice would you give someone ready to tap their 401(k) in retirement?

A: Most importantly, make sure you have a good retirement income plan in place to ensure you do not outlive your retirement savings.

Also, draw income from your taxable accounts before tapping into your 401(k) and IRAs, allowing these accounts to continue to grow tax-deferred.

Q: When is it most advantageous to roll over a 401(k) into an IRA? Are there risks or drawbacks to that move?

A: When you retire or reach age 59 2, it may be appropriate to consider a rollover IRA. Some plans even allow participants to roll over a portion of their 401(k) assets while they are still working.

Although there are several benefits, we believe increased investment flexibility is the primary reason to roll over your 401(k) to an IRA.

However, be very careful when rolling over your 401(k). If working with a financial services representative, make sure you understand any potential conflicts of interest associated with their method of compensation.

You need to ask yourself, "Is this broker, insurance agent, tax preparer or other financial adviser recommending this particular annuity, mutual fund, or other investment because it is truly the best alternative for my personal objectives or because it is the investment product for which they receive the best commission?"

Q: Early next year, so-called Roth 401(k)s will be available from some employers. Which 401(k) - regular or Roth - would you recommend? Why?

A: Generally, younger employees and employees currently in lower tax brackets are the best candidates for Roth contributions, either 401(k) or IRA. The longer the investment time horizon, the better the Roth option looks on a total after-tax return basis.

Additionally, anyone who thinks they will be in a higher tax bracket after retirement would prefer a Roth 401(k).

Q: Are there any other 401(k) or IRA issues or ideas people should know about?

A: Many people are not taking advantage of "catch-up" contributions. This provision of the 2001 tax law allows 401(k) participants age 50 and older to invest additional pre-tax dollars beyond the standard limit.

For example, pre-tax contributions are capped at $14,000 in 2005, but the catch-up provision raises that limit by an additional $4,000 for those age 50 and older.

Additionally, IRA investors age 50 and older are allowed a catch-up contribution in 2005 of up to $500 above the standard limit of $4,000.

These limits will increase in 2006 and beyond, so investors should make sure to adjust their retirement savings plan accordingly.