

BUILDING BLOCKS FOR RETIREMENT

Diversification

Investing In Employer Stock The Importance Of Diversification

Employer Stock Benefits

You may want to consider investing a portion of your defined contribution plan account in employer stock if employer stock is an option under your plan. Investing in employer stock will provide you with an opportunity, as an employee, to share in the success of your employer. Simply put, if you invest in your company's stock and your company's stock performs well, you get to reap the benefits of the investment growth. In some cases your employer may purchase stock on your behalf, and in some cases, you can invest entirely on your own. For more information on how you can invest in employer stock, please refer to your Summary Plan Description.



Tips

While investing in your employer stock fund can potentially be beneficial, experts will typically guide investors to diversify their investments wisely. When it comes to planning for your retirement, investments play a big role in being able to accumulate and compound wealth towards your monetary retirement goals. Based on research conducted by many financial experts it is often recommended that DIVERSIFICATION be a part of developing a well-rounded Investment Portfolio

specifically geared toward Retirement Planning. In other words, a common caution is to not put all of your eggs in one basket.

Diversification A.K.A Risk Management

While determining whether to invest in your employer stock fund you should consider how investing too heavily in any single fund, including employer stock, may expose you to great risk.

Example

Steve, a hardworking employee at EnergyRon, Inc. has been receiving employer contributions into his employer's publicly traded stock fund for the past 15 years. He has noticed tremendous growth in the stock, and his company, and decides to invest his own retirement contributions in the stock as well. The energy industry suddenly faces challenges. Gas prices start rising, the economy starts suffering and the energy industry stocks, including EnergyRon, Inc. stock, starts plummeting. Top Executives at EnergyRon, Inc. sell huge portions of their

shares causing EnergyRon, Inc. stock to decline even further. Steve's investment portfolio, which is primarily invested in EnergyRon, Inc. stock, experiences a significant loss in less than 1 year. His portfolio that has been growing sufficiently for the past 15 years has all of a sudden diminished to a fraction of what he had last year. Steve anticipated his nest egg would provide for a planned retirement in 10 years. However, with a significant portion of his account gone, he doesn't know what to do.

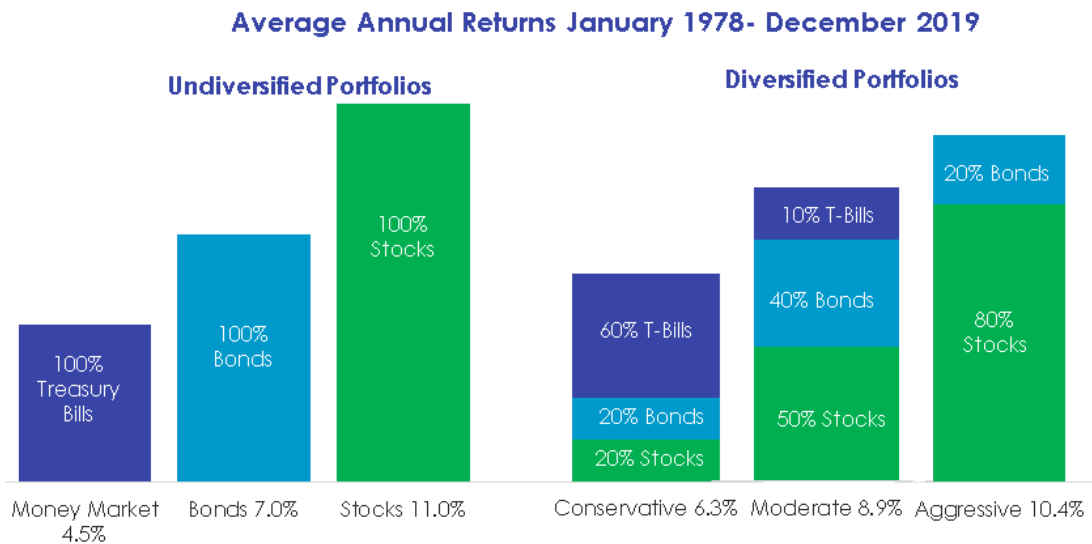
Lesson

Steve meets with a financial advisor for guidance. His advisor relays the following information:

“When you have investments that are closely tied to the industry in which you earn your living, a downturn could affect your portfolio's value as well as your income. Investors should always be cautious about investing in industries that have a significant presence in their area. Diversifying your investments across several sectors of the economy may be the best strategy for managing your exposure to risk.”

Illustration

The investor who diversifies and invests in a combination of stocks, bonds, fixed income and other asset classes typically come out ahead. Historically, diversified investments have proven to reduce exposure to risk AND maintain consistent growth rates.



Moral

Steve's situation could have been avoided by seeking DIVERSIFICATION in his investments earlier. Unfortunately, Steve's advisor recommends that he extend his employment longer than originally expected to account for his investment loss. In order to retire comfortably, he'll need to invest longer and wiser.

Protect Your Nest Egg Through Diversification

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