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Contact:	Asma Emneina 650.565.7791 asma@financialengines.com	Mike Jurs 650.565.7752 mjurs@financialengines.com

WITH THE STOCK MARKET IN TURMOIL, WHAT SHOULD THE 401(k) INVESTOR DO?

Financial Engines Provides Investing Tips to Help Investors Weather the Volatile Market

October 9, 2008, **PALO ALTO, Calif.** – Down! Up! Down! Up! If investors have learned anything from the last two weeks on Wall Street, it's that we're in the midst of a period of whiplash-inducing volatility. So what are 401(k) participants to do given the wide market swings? Christopher Jones, Chief Investment Officer for Financial Engines and author of The Intelligent Portfolio, provides some suggestions to help investors successfully weather these trying times.

"These are tough times for all 401(k) investors, especially those approaching their planned retirement date," said Jones. "It's natural to feel considerable anxiety about what the future holds, but the most important lesson investors can learn is to avoid rash changes in their investment plan and to take the long term perspective."

Jones provided the following suggestions to help investors place the events of the last weeks into context:

- **Stay in the plan.** Your 401(k) account balance likely fell in the last few weeks, but this is not the time to stop contributing to your 401(k). Chances are good you'll need that money when you retire and getting out of the plan could put your retirement at risk. And if you think your recent market losses are bad, wait until you see the chunk Uncle Sam takes if you cash out of your plan before age 55.

- **Don't miss the upswing.** Likewise, while it hurts to see your 401(k) balance decline, now is not the time to move everything to conservative investments. While markets can go down sharply in volatile times, they can go up again just as suddenly and unpredictably. For example, in the past two major market downturns (Black Monday in 1987 and Sept 11, 2001), markets gained back much of their losses in a relatively short period. It took about a year in 1987 (after a one-day 20% loss) and only a month to get back after 9/11 in 2001. The point is that getting out of equities immediately after a big market downturn means that you could miss some of the best days ahead in the market, effectively locking in your losses. Trying to time the markets is a mistake.
- **Review company stock concentration.** You've probably already heard that too much company stock can be dangerous to 401(k) accounts. You just might believe it now after

living through the last few weeks. As a rule, if you are holding more than 10 percent of your 401(k) in your company's stock, now might be a good time to consider diversifying your holdings to a more appropriate level.

- **For those under age 50, stay focused.** For those under age 50, recent losses will eventually fade away in significance. Keep in mind that over the long-run, stock markets tend to go up and reward investors for taking market risk. Of course, market performance can be a bumpy ride. Investors with 10 or more years to go to retirement need to continue saving and make sure their portfolios are appropriately diversified.
- **For those closer to retirement, don't panic.** For older investors approaching retirement, the impact of recent events is more serious. As a rule, it's recommended that people reduce portfolio risk as they approach retirement to guard against market downturns. Even with risk reductions, however, it is likely that some investors have experienced losses that are material to their retirement plans as a result of recent market volatility. For these older workers, it's important that they revisit their retirement goals, consider saving more, or perhaps consider working an extra year or two to help mitigate the impact of the recent market upheaval.

About Financial Engines:

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