
It pays not to panic, Fidelity survey shows

By Editor Test Wed, Aug 24, 2011

Plan participants who dropped to zero equities but then returned to some equities after the 2008 crisis saw an average account balance increase of 25% by June 30, 2011, compared to 50% for those who stuck with their equities.

Mutual fund investors who maintained a diversified asset allocation strategy and didn't pull out of equities came through the financial crisis in relatively good shape, according to Fidelity Investments' second quarter 2011 review of 401(k) accounts.

Fidelity analyzed participant actions during the market decline of 2008-2009 through the second quarter of this year⁴. The results reinforced the value of a long-term investment approach.

For participants who changed their equity allocations to zero percent between Oct. 1, 2008, and Mar. 31, 2009, the lowest months of the market downturn, and maintained this allocation through June 30 of this year, the cost to their account balance was significant. These participants experienced an average increase in account balance of only 2% through June 30.

Participants who dropped to zero percent equity but then returned to some level of equity allocation after that market decline saw an average account balance increase of 25%, a sharp contrast to those who stayed with an asset allocation strategy inclusive of equities. These participants realized an average account balance increase of 50% during the same period.

Fidelity also examined participants who stopped contributing to their 401(k)s during the same market decline of 2008-2009. These participants experienced an average increase in their account balances of 26% through the end of the second quarter, compared to 64% for participants who continued making regular contributions.

The average annual participant 401(k) contribution was \$5,790 at the end of the second quarter of 2011, up 11% from the same quarter five years prior. More participants also increased their contribution rates than decreased them (6.1% vs. 2.7% respectively), a positive trend for nine consecutive quarters. Additionally, the Fidelity average 401(k) balance of \$72,700 was up 19% over five years.

Of Fidelity plan sponsors, 72% defaulted participants into a target date investment option, up from only 8% five years prior. Additionally, more than half (52%) of participants utilized a lifecycle investment option, with 46% of these participants – one quarter overall – investing 100% of their 401(k) assets into the option.