

ENRON: Common Sense and the Advisor

A recent article in the February 6, 2006, *Newsweek*, illustrated the impact media hype can have on 401(k) plan participants, and underscored the need for a little common sense when dealing with employer stock in a 401(k) plan. It also identified a great opportunity for advisors. Briefly, here is what the article pointed out.

ENRON, *et al*, and the media coverage of their retirement plan woes, affected how many participants view investing, retirement plans, and large corporate entities. I am still amazed at the number of times I hear advisors talk about clients who have stopped participating in their 401(k) plans because of ENRON-like issues.

Let's look at the myths and the reality of Enron, and the opportunity for advisors

Myth	Reality
Enron 401(k) plan participants were not allowed to diversify out of Enron stock.	No! Participants were allowed to diversify all of their accounts, except the company match account.
The plan's black-out period prevented employees from getting out of company stock, and resulted in participants losing large amounts.	No! Enron stock went from \$80 to \$12 per share <i>before</i> the black-out period started. Greed kept most participants in company stock. The stock was at \$9 per share when the black-out period ended.

What does this mean to the advisor?

- Many participants are not getting the advice they need to properly allocate their 401(k) plan assets.
- Work with clients on their 401(k) plan asset allocation strategies before they are ready to retire or leave service and seek to roll the assets over to an IRA.
- Encourage a balanced portfolio with modest positions in company stock.
- By working with participants on their 401(k) plan asset allocations early on, they will associate you with the 401(k) plan in a positive way. This favorable exposure will increase the likelihood of you getting the call when they want to take a distribution and complete a rollover.