

Know More Save More

Q: Should I sell a fund that has performed poorly for a year?

A: By what standard has this fund underperformed? Make sure you're making an apples-to-apples comparison: Judge your fund against the appropriate benchmark. Holding a stock fund up to a bond index, for example, is counterproductive. That said, it may not be wise to sell a fund only because it has had a poor short-term return. Consider waiting at least two years to give it time to potentially fall back in line with its peers. Consider, too, whether or not the fund is still consistent with your risk tolerance and investment objectives.

Q: Can I apply the principle of rebalancing to the investments I own *outside* my retirement savings plan?

A: Absolutely. Rebalancing works well inside *and* outside your retirement account. In fact, before choosing the best asset mix in your retirement savings account, it's a good idea to consider your overall allocation by looking at *all* your investments as a single pool of money. Do you have a cash savings account outside your plan? Maybe you don't need a cash allocation inside your retirement savings account. Do you have a big foreign stock investment in your IRA? That might make you decide to concentrate more of your retirement savings account stock allocation in U.S. equities.

Q: What does compounding mean?

A: Compounding is what happens when you increase your principal by steadily reinvesting your earnings. In a retirement savings account, you do this automatically. The result: You earn a return on your earnings as well as on your original contributions. Over time, compounding may substantially increase the value of your investment.

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