

401(k) Keys to Stable Value

By TOM SULLIVAN-Barron's copyright 2008, News Corp.

THERE'S AN ISLAND OF STABILITY IN THE SEA OF VOLATILITY that is the financial markets-stable-value funds.

Unfortunately, even inexplicably, a lot of investors can't land on this shore—even with the help of Gilligan and Skipper—due to regulatory red tape involving taxes and accounting. But if you have a 401(k) account with your employer and can access these type of funds, you might want to take a closer look.

About half the workforce has a 401(k) defined-contribution, tax-deferred plan for retirement, and half those plans offer stable-value funds, says Gina Mitchell, president of the Stable Value Investment Association, a trade group. All told, stable-value funds have a combined \$413 billion in assets.

Stable-value funds, which have been around in one form or another since the 1920s, provide predictable, steady income and capital preservation because they invest in high-quality investment-grade bonds and have an insurance wrap. They have an average duration, or maturity, of 3.2 years, which means they have been relatively unscathed by the subprime-mortgage-related rout that rocked the market last summer after some borrowers began defaulting. They're a great way to protect your investments from volatility in interest rates.

So far this year, stable-value funds have returned about 4.9%, says Mitchell, which is better than many super-safe municipal bonds, and well ahead of the 2.56% average simple yield on a seven-day tax-free money-market fund most recently reported by iMoneyNet.

An average 401(k) has about 20% invested in these type of funds, Mitchell says. They provide great diversification and can be a hedge. An investor who likes to swing for the fences in the stock market can be sure to keep some capital safe. And investors who can't risk losing money can up their allocation and sleep soundly at night.

Typically, stable-value funds are a favorite of employees just starting out in the business world who need to accumulate capital so they can take bigger chances later. They're also attractive to people near or in retirement who can't risk that nest egg they built up from a lifetime of investing.

But lately, they've been popular across all age groups. In January, the Hewitt 401(k) Index reported inflows into stable-value funds and similar guaranteed-income contracts of \$888

million. At the same time, large U.S. equities saw outflows of \$521 million, according to Hewitt.