Taking Stock: 401(k) options can be bewildering

by Malcolm Berko

Dear Mr. Berko: I'm a 51-year-old working mother who has, by the grace of luck and God accumulated $146,000 in my 401(k) account. I worked for a public company for the last 27 years and all of this money came from investing in the company's common stock. The plan is being closed down and I am going to move this money to my new employer's 401(k) plan. And I am really confused because there are so many investment alternatives and I haven't a single clue how to select an investment from the huge menu of choices. Would you please look over these 20 or so alternatives and tell me which would be the best for me?

S.H.

Columbus, Ohio

Dear S.H.: It's presumptuous, irresponsible and derelict when employers blithely toss complicated and crucial investment options to their employees with a "hurry and fill in the darn blanks so we can finish this and get back to work" attitude. After our 35-minute conversation, I am pleased as punch to give you the following advice.

Invest 15 percent of your dollars in Fidelity Low-Priced Stock Fund (FLPSX), which carries Morningstar's five-star rating. This medium-cap fund with $40 billion in assets invests about 80 percent of portfolio in quality low-priced issues that trade under $35 a share. FLPSX owns issues like Oracle, Bed Bath & Beyond, Safeway, Dollar General and UnumProvident. FLPSX keeps about 10 percent of its portfolio in cash and foreign issues represent about 25 percent of assets. Its one-year return is 14.2 percent, its three-year annualized return is 14.5 percent, its five-year annualized return is 15.6 percent and its 10-year annualized return is 15.3 percent.

Then put 15 percent of your $146,000 in Fidelity Value Fund (FDVLX) that has an $18 billion portfolio and carries a four-star Morningstar rating and owns issues like Safeway, Baxter, Tyco and Xerox. Management invests in issues it believes are undervalued or possess valuable fixed assets, which may include equipment, leases, real estate or intangible assets like trademarks, franchises or transportation routes. This medium-cap blend fund keeps about 3 percent of its portfolio in cash and 97 percent in equities with about 7 percent of these equities invested in foreign issues. FDVLX's one-year return is 15.1 percent, and its annualized three-, five- and 10-year returns are 16.8 percent, 14.2 percent and 12 percent, respectively.

I suggest that you invest 15 percent of your cache in Fidelity Equity-Income Fund (FEQIX) that has a three-star Morningstar rating. This $31 billion large cap value fund seeks reasonable income as a primary objective and capital gains as a secondary goal and normally invests about 80 percent of its assets in income producing equities. Pfizer, AT&T, Bank of America, Exxon Mobil, Bell South and General Electric are among the largest portfolio positions and about 6 percent of FEQIX's assets are invested in foreign issues. The one-year return is 18.0 percent. The three-, five- and 10-year annualized returns are 11.4 percent, 9.2 percent and 9.3 percent respectively.

Fidelity Diversified International (FDIVX) should have about 15 percent of your invested funds. Morningstar gives this $47 billion portfolio a five-star rating. Management's primary goal is capital appreciation and it attempts to fulfill its goal by investing 88 percent of its portfolio in non-U.S. stocks throughout the world. Some of the top holdings in this large cap growth fund include, Roche, Novartis, Nestle, Bayer, Toyota, Japan tobacco and UniCredito Italiano. The return for the last 12 months was 18 percent. And FDIVX's three-, five- and 10-year annualized returns are 18 .4 percent, 17.9 percent and 13.6 percent, respectively.

And Fidelity Balanced Fund (FBALX) a five-star rated fund with $19 billion under management is a dandy. Management seeks income and capital growth with reasonable risks. About 60 percent of the fund's portfolio is in equities while the remaining 40 percent is usually invested in bonds, preferreds or other debt securities. Some of the top holdings in this large cap blend fund are U.S. Treasury notes, FNMA debt securities, interest rate swaps, GE, Verizon, Valero Energy, Citigroup and Bank of America. FBALX's return for the last 12 months was 9.3 percent. And its annualized return for the 3, 5 and 10 year periods was 10.1 percent, 10.2 percent, and 10.8 percent respectively. Invest 25 percent of your money in FBALX.

Finally, put 15 percent of your dollars in the five-star Fidelity Contrafund (FCNTX) a $68 billion portfolio that seeks capital appreciation by investing in common stocks whose values may not be recognized by the public. This large cap growth fund owns 435 different issues and among its top holdings are Danaher Corp., NII Holdings, American Movil, EnCana, Marvell Technology and Roche Holdings. During the last 12 months FCNTX returned 11.5 percent, and its three-, five- and 10-year annualized returns are 13.9 percent, 12.1 percent and 11.1 percent, respectively.

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