Daily Mail

As the S&P 500 and Dow climb to record highs - here's what it means for your 401(K)

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UPDATED: 2:36 PM EST, 23 January 2024

- The major stock averages are up this year - in a boost to many 401(K) plans
- Americans can make the most out of gains through an index-tracking fund
- But experts urge caution and warn not to gamble on your retirement account

The S&P 500 and Dow Jones both climbed to record highs this week, amid Wall Street optimism that the Federal Reserve could soon begin cutting interest rates.

After stumbling slightly at the beginning of the year, it appears the major stock indices - alongside the tech-oriented Nasdaq Composite - are in positive territory for 2024.

Last year, the S&P 500 rose 24 percent - with the gains mainly led by the so-called 'Magnificent 7' tech stocks Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta Platforms and Tesla.

For the average American, their main exposure to the stock market is likely in their retirement plan, as most 401(K) accounts have some money invested in these benchmark indices.

This rally is good news as it means their portfolios are likely recovering substantial losses from 2022, when the S&P 500 closed out the year down 20 percent.

The easiest way to make the most out of the gains is to invest in a fund that tracks the S&P 500, some experts say.

But others are quick to urge caution - warning people not to rush to react to ups and downs in the markets.

Americans can choose between mutual funds or exchange-traded funds (ETF). With a mutual fund, you can buy and sell based on dollars, whereas with an ETF you buy and sell based on market price.

Among the largest ETFs are SPDR S&P 500 ETF Trust, iShares Core S&P 500 ETF and Vanguard 500 Index Fund.

The S&P 500 index tracks the 500 biggest companies in the US.

They are large-cap equity stocks - meaning they have market capitalization value of more than $10 billion. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Tech is the largest sector of the S&P 500 - making up almost 29 percent of the index and leading the recent rally.

'Among the better decisions people can make is starting with an index-based fund tracking the S&P 500 because it works,' Todd Rosenbluth, head of research at financial consultant VettaFi, told CNBC.

Ted Jenkin, certified financial planner and CEO of oXYGen Financial, told the outlet: 'I don't think individual investors or money managers can generally outperform the S&P 500.'

But Peter Gallagher, managing director of Unified Retirement Planning Group, urges Americans to be cautious when it comes to their retirement plans.

The greater exposure a portfolio or 401(K) account has to the S&P 500 or other benchmark indices, the more it is affected by the ups and downs of the markets.

You should consider a retirement plan and how much money you need for the rest of your life, he said, before you think about what return you need and how much risk you need to take - whether that is investing in the S&P 500 or bonds or other asset classes.

'My advice is to have a plan and stick to it,' Gallagher told *DailyMail.com*. 'Based on the recent rally, it could be a very volatile year as it is an election year.

'When the market goes down - and it will - having a plan makes it a little easier as you should have a long-term time frame, and your assets should be diversified so you can ride it out. I try to take the guesswork out of retirement planning.'

Bonds are traditionally seen as a safer option for long-term investing, but Gallagher adds that there are over 100 different asset classes to choose from.

Exclusively investing in one area may be limiting if other parts of the market which could prove more successful in 2024.

'It's very hard to say that one asset class will better than another this year,' he said.