How to Invest in a 401(k)

By Viplav Nigam, Founder, LongShort.io



ALEX

The bakery says I’m eligible for its retirement plan. Is this the Roth IRA I opened myself?

SAM

This one comes through work. Start with the benefits portal or ask HR for enrollment instructions. Check whether you’re already enrolled, your paycheck deduction and where the plan invests it.

Follow one paycheck



ALEX

My eligible pay is $1,000. I chose 6%, so $60 comes out. Where did the other $30 in my account come from?

SAM

This example bakery matches half your contribution up to 6% of pay. You put in $60 and the bakery adds $30. Your contributions belong to you. Its match may take time to become fully yours.

Choose where the money goes



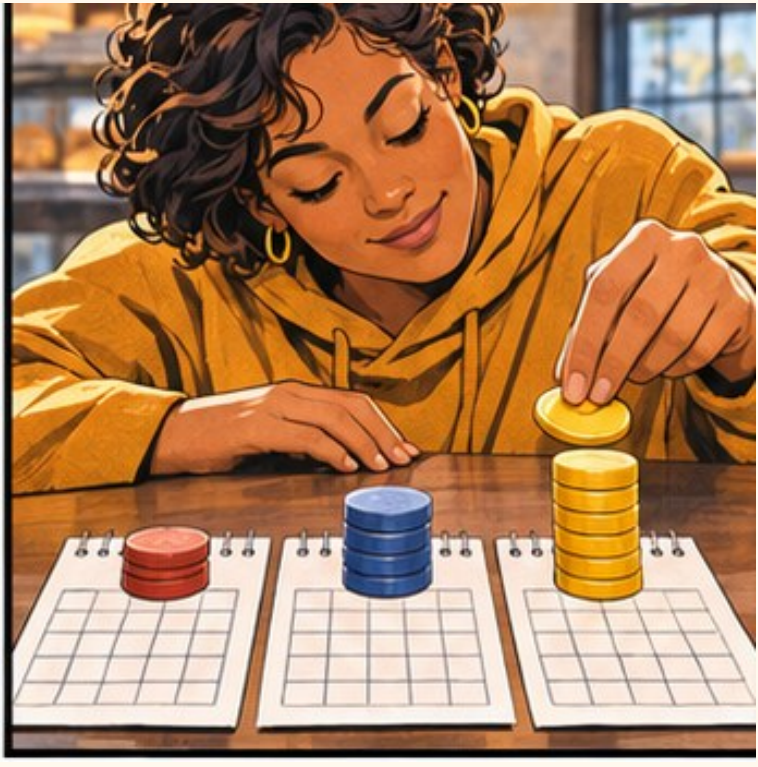
ALEX

My choices include a target-date fund and separate U.S. stock, international stock and bond index funds. How do I read this menu?

SAM

The target-date fund bundles investments and usually shifts toward bonds over time. With separate funds, you choose the mix and maintain it. Compare what each owns, its risk and its annual fee.

The same dollars each payday



ALEX

Suppose $60 of each paycheck goes into one index fund. What if the price falls before the next payday?

SAM

Your $60 buys more shares. At $20 a share it buys three. At $15 it buys four. At $12 it buys five. The dollar amount stayed steady while the price changed. That’s dollar-cost averaging.

Do these funds overlap?



ALEX

My broad U.S. index fund already owns these companies. The growth fund owns many of them too.

SAM

Adding the growth fund puts more of your money in those companies. To see how spread out you are, look across all your holdings: stocks and bonds, countries, industries and the biggest positions.

Check the next pay stub



ALEX

I saved my choices. What should I check after payday?

SAM

Match the deduction on your stub to the contribution in your account. Look for the fund purchase and the employer contribution on the plan’s schedule. If your pay or goals change, revisit the settings.

Three paydays on paper

What did Alex spend?

$60 + $60 + $60 = $180 of employee money. For this example we follow only her contributions. The employer match is separate.

What did she buy?

3 + 4 + 5 = 12 shares. Divide the $180 spent by 12 shares. Her average cost was $15 per share.

What is it worth now?

At the third price of $12, the shares are worth $144. Alex has a $36 loss on paper. Buying steadily spreads purchases over time. She can still lose money. Prices, fees and returns here are illustrative. The example assumes no fees or distributions.

What changes if her pay changes?

With a percentage election, a bigger or smaller paycheck changes the dollars invested. A regular payroll schedule keeps the habit going. Her $60 was constant here because her eligible pay stayed the same.

Before Alex clicks confirm

Tax choice and plan rules

Traditional pre-tax payroll contributions generally reduce current federal taxable income; withdrawals are generally taxable. Roth 401(k) contributions use after-tax pay; qualified withdrawals are federally tax-free. Check plan eligibility, matching formula, vesting and fees.

What about gold, silver, crypto and real estate?

Check the actual plan menu. Some plans offer real estate funds; others already hold listed property companies through a broad index. Metal and crypto exposure may be unavailable. Each adds its own risks. Diversification can be achieved with conventional broad funds.

Keeping the mix in view

Compare the share of your account in each asset class with the mix you intended. As markets move, adjusting contributions or rebalancing can bring it back. A target-date fund typically manages its own mix. Regular purchases and diversification do different jobs.

Department of Labor • Retirement plans and workers' rights

IRS • Roth account comparison

Investor.gov • Dollar-cost averaging

Investor.gov • Target-date funds