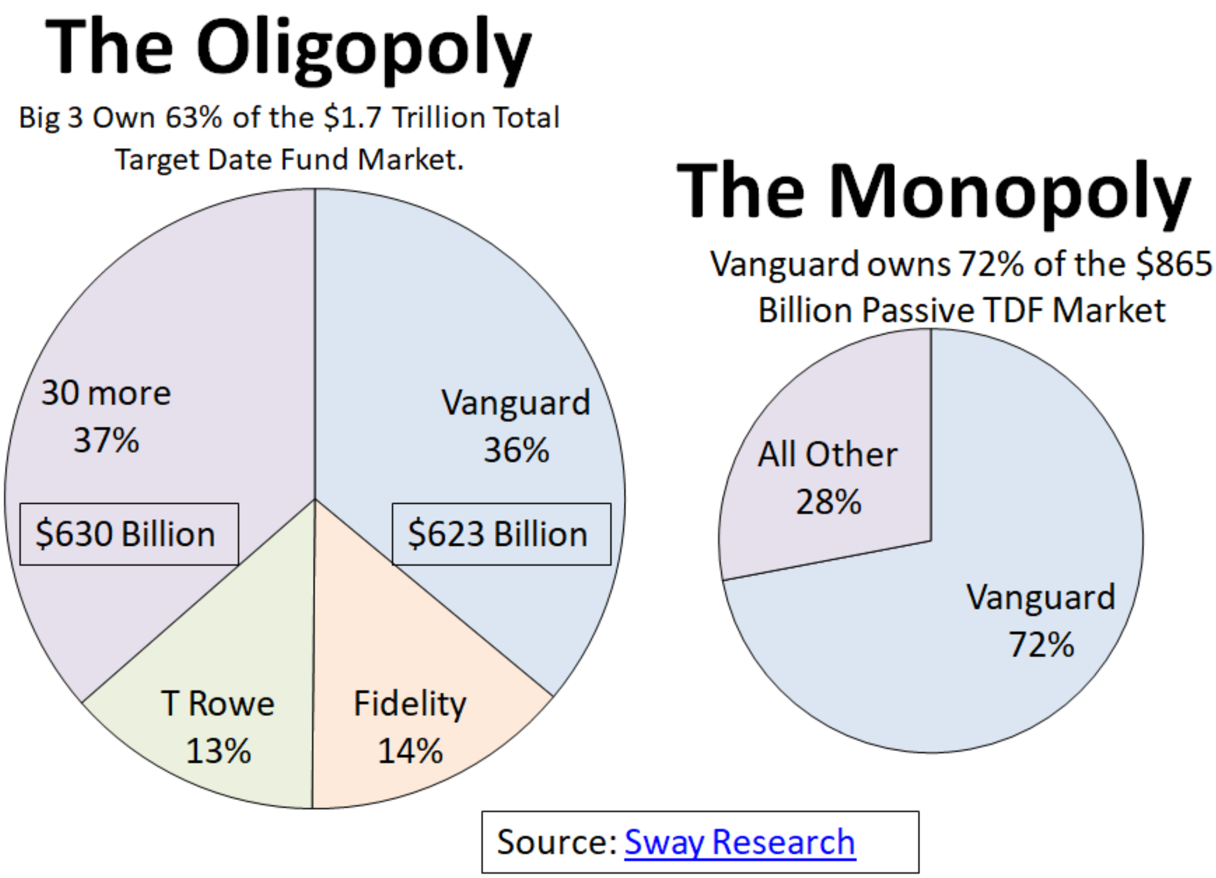
The Target Date Fund Market is All Oligopoly and Part Monopoly Hampering Innovation

An **oligopoly** is a market structure in which a small number of firms has the large majority of market share. An oligopoly is similar to a monopoly, except that rather than one firm, two or more firms dominate the market. A **monopoly** is a market structure dominated by one firm.

As reported in this Sway Research Report, and shown in the following graph, the target date fund market as a whole is an **oligopoly**, while the passive segment of this market is a **monopoly.**



The Big3 trio of Vanguard, Fidelity and T. Rowe Price is an **oligopoly**, having a large share of the TDF market. Also, the next 8 TDF firms in size comprise most of the rest, as shown in the following table. Vanguard is a **monopoly** in the passive TDF market, constituting a whopping 72% of this market.

Top 10 TDF managers by assets under management

COMPANY	TOTAL AUM*	TOTAL MARKET SHARE**	MUTUAL FUND ASSETS	CIT ASSETS
Vanguard Group	$623	36.0%	$381	$242
Fidelity Investments	$244	14.1%	$227	$17
T. Rowe Price	$232	13.4%	$168	$64
BlackRock	$140	8.1%	$18	$122
American Funds	$89	5.1%	$89	N/A
J.P.Morgan	$87	5.0%	$53	$33
Principal	$60	3.5%	$26	$34
SSgA	$44	2.6%	$4	$40
TIAA	$44	2.5%	$44	N/A
American Century	$24	1.4%	$19	$5

*Notes: *Figures in billions of dollars as of end-2017. **Market share includes mutual fund and CIT assets. Figures exclude assets in custom products*

Source: Sway Research

So what?

According to Investopedia : *the economic and legal concern is that an oligopoly or monopoly can block new entrants, slow innovation, and increase prices, which harms consumers. Firms in an oligopoly set prices, whether collectively – in a cartel – or under the leadership of one firm, rather than taking prices from the market. Profit margins are thus higher than they would be in a more competitive market.*

The conditions that enable oligopolies to exist include high entry costs in capital expenditures, legal privilege (license to use wireless spectrum or land for railroads), and a platform that gains value with more customers (in this case it's recordkeeping).

In other words, the current structure is not good for consumers and beneficiaries. The good news is that lawsuits are keeping prices low. It's been a race to the bottom. The bad news is that this structure is hampering advancements in TDFs. There are better, more prudent, TDFs but they don't have a chance.

Better TDFs are screaming for attention but can't get it because fiduciaries, namely advisers, are breaching their duty of care because they are not vetting their TDF selection. Unfortunately, advisers see their business risk and fiduciary liability through a faulty lens. They think they'll keep the account if they hire Vanguard. From a fiduciary perspective, they think any QDIA (Qualified Default Investment Alternative) will do.

The next market crash could help. Lawsuits actually work in righting wrongs. Witness the effects of excessive fee lawsuits. Where there's harm, there's a foul. Fiduciaries are responsible for harm to their dependents that should have been avoided. There are better, more prudent, target date funds.

Advisors are running for cover to the Big 3, but they're running in the wrong direction.