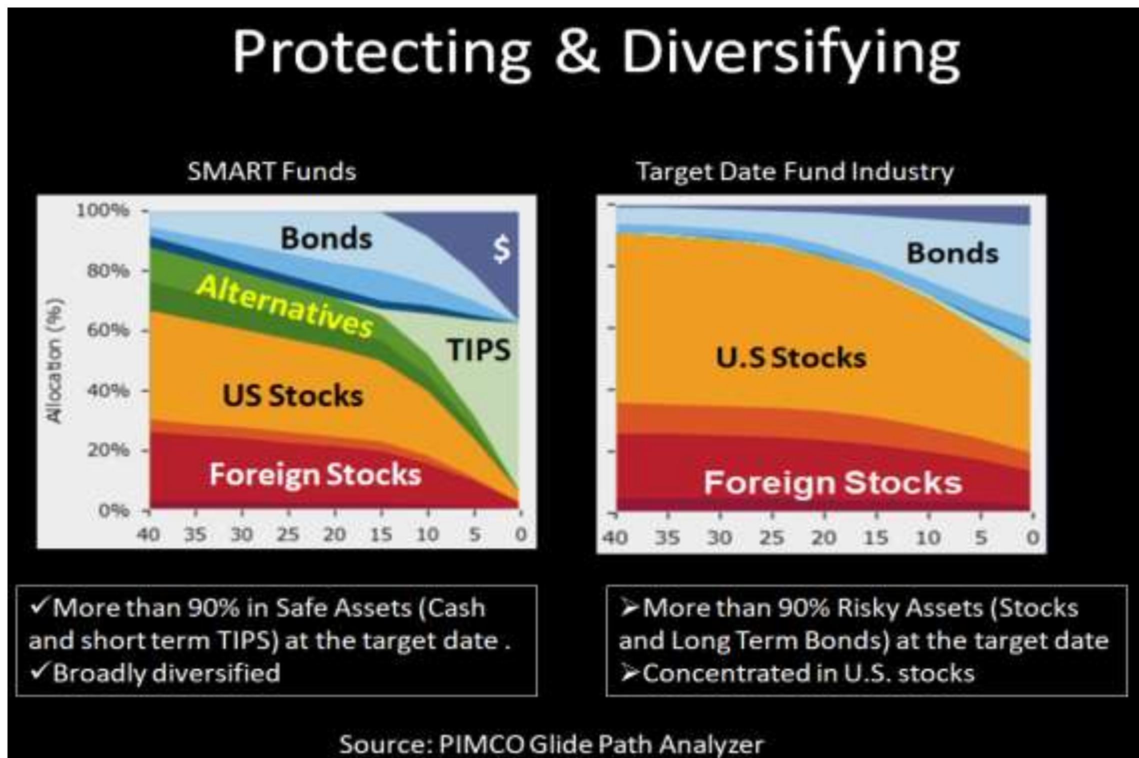
How Much Could Your 401(k) Lose in the Next Market Crash?

Based on the U.S. history of previous market crashes, investors who are currently entirely in stocks could lose as much as 80% of their savings if the 1929 or 2001 crashes repeat. If we have a repeat of the 2008 crash, the loss would be "only" 56%.

But most 401(k) investors are not 100% invested, and the next crash might not be as bad as 1929, 2001 or 2008, so in the following we look at all the previous U.S. market crashes and at asset allocations for target date funds, the most popular investment in 401(k) plans, at $1.5 trillion. Some will recover from the next crash but many will not. Those near retirement will probably not recover, including lots of our 75 million Baby Boomers, and it's a shame.

Target date fund allocations

Until now, most of us had forgotten the devastation of 2008 when the typical IRA and 2010 TDF lost more than 30%. Although it went unnoticed, one TDF defended quite well in 2008, with only a single digit loss. The following graph compares the SMART TDF to the industry.



The average TDF is about 60% in equities near the target date while the SMART Fund is less than 20%. Also most of the balance in the typical TDF is in long term (risky) bonds while SMART is in T-bills and TIPS. Note that these differences are all about risk management rather than timing. More on this distinction follows.

Possible losses in 2020 target date funds

It's worth noting that when the 2010 TDFs lost more than 30% in 2008 they were 2 years away from the target date; beneficiaries in these funds were expected to retire in 2 years. That's precisely where the 2020 funds are today – 2 years away from the target date.

The following table shows the history of U.S. stock market crashes and how much investors in 2020 funds stand to lose if history repeats itself.

How much will 2020 TDFs lose if a market crash repeats?

Time period	Length (months)	Loss	Average TDF loss	SMART TDF loss
9/29-6/32	34	86	50	16
12/61-6/62	6	28	16	2
11/68-5/70	18	36	20	3
1/73-10/74	21	48	28	9
11/80-8/82	21	28	16	2
8/87-12/87	3	34	19	3
3/00-10/02	32	78	46	15
10/07-3/09	17	56	32	10

As you can see potential losses on the typical 2020 TDF are at least 16% and could be as high as 50%, but the maximum loss on the 2020 SMART fund is capped at 16%.

So you've been alerted. Some will recover but many will not. Those near retirement will not recover.

The promise of target date funds is that they help protect older beneficiaries from losses, but as you can see this protection is not adequate. Most importantly, 75 million Baby Boomers are currently in the Risk Zone that spans the transition from working life to retirement. Losses in the Risk Zone are not recovered; they're paid for with reduced standards of living. Some confuse this warning with market timing, but it is quite different.

Risk management is not timing

Many confuse risk management with timing, but timing has little to do with investor vulnerability and everything to do with market outlook. In the current market run-up, where U.S. stocks have earned more than 250%, there is great demand for crystal balls that will tell us when to get out of harm's way, but that's not risk management. Risk management is called "Tactical" asset allocation while timing is called "Strategic." The idea is that risk management is independent of market outlook and designed to protect when investors are most vulnerable, whereas timing is short term and all about market forecasts.

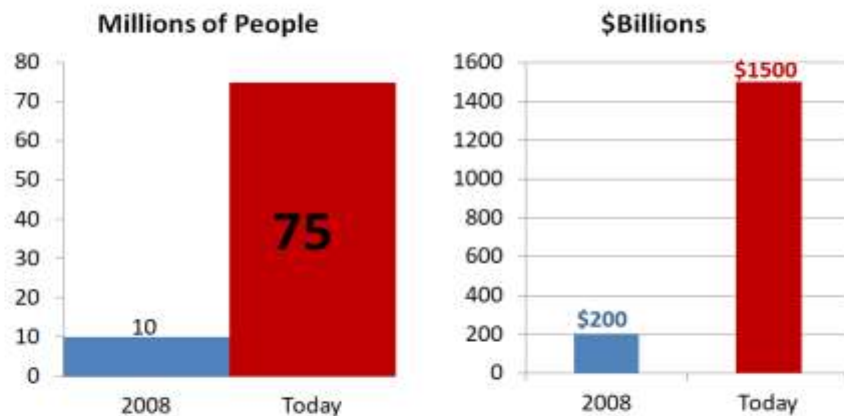
Sometimes risk management is easy

Risk management and timing are both usually very hard, and require different skill sets, but there is a time in every investor's life when risk management is easy and obvious, although most don't see it. It's a time when a special kind of risk is at its

highest and that risk could ruin our lifestyles for the rest of our lives. Unless we feel extraordinarily lucky we really should move to safety during the Risk Zone that spans the transition from working life to retirement when Sequence of Return Risk peaks. Baby Boomers have $30 trillion in the Risk Zone. **At this stage in their lives they should be protecting their savings and figuring out how to make them last a lifetime**.

Conclusion

Unfortunately, 2008 has been forgotten so it will repeat, and this time it will be catastrophic. The public outcry in 2008 resulted in joint SEC-DOL hearings, but that situation had only $200 billion in TDFs and not many people in the Risk Zone. Today we have 75 million people in the Risk Zone and $1.5 trillion in TDFs. When (not if) the next meltdown happens, regulators will have to react to a public outcry like never heard before. Society will applaud lawsuits that recover any part of the damage. Justice will be done, but after way too many are harmed.



Fear mongering? You bet. There are carrots & sticks. Carrots don't work so well when skillful salespeople make poop smell nice.

If you're a fiduciary who has your Boomer beneficiaries in harm's way, shame on you. Don't be surprised if you find yourself in the crosshairs of litigation. If you're a litigator, there's some imminent damage that you can and should recover. It will be a valuable service to Society, thank you.

We help you provide the risk management your beneficiaries need and deserve. The SMART Target Date Fund Index is the Most Prudent target date fund. It tracks the Patented Safe Landing Glide Path that successfully protected in 2008, and will protect again.