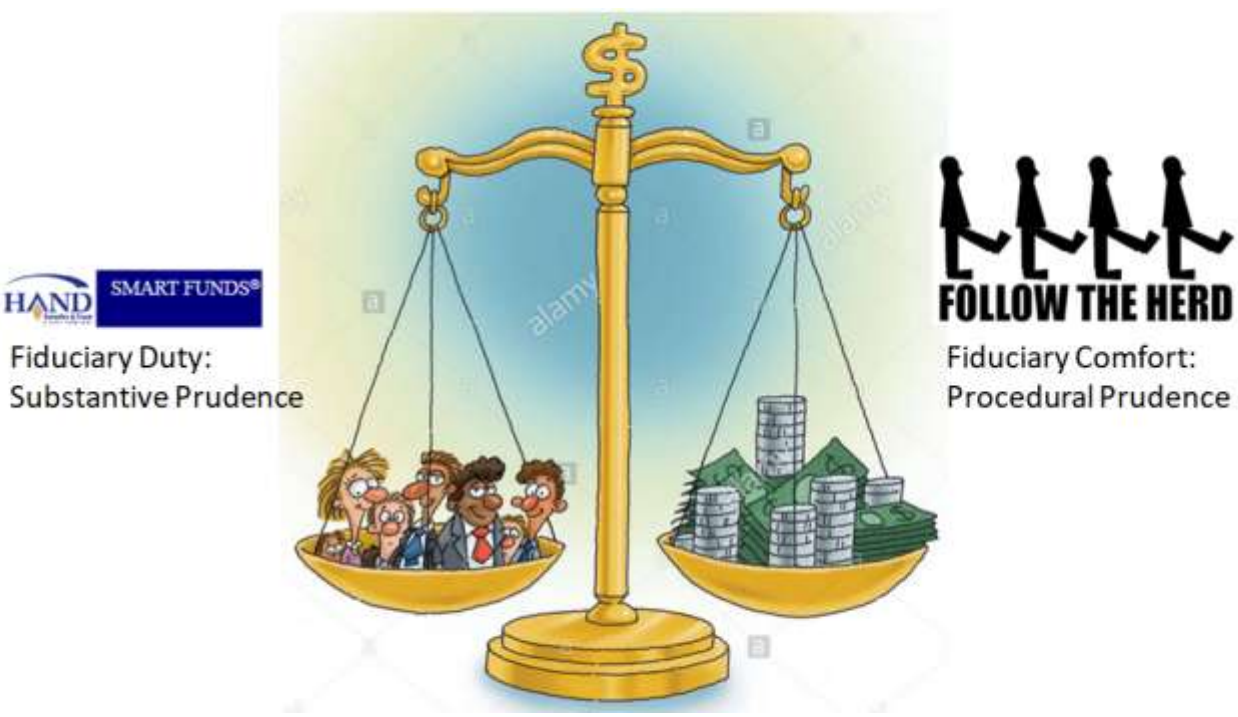
Now for Something Completely Different:

A Target Date Fund That is Like No Other

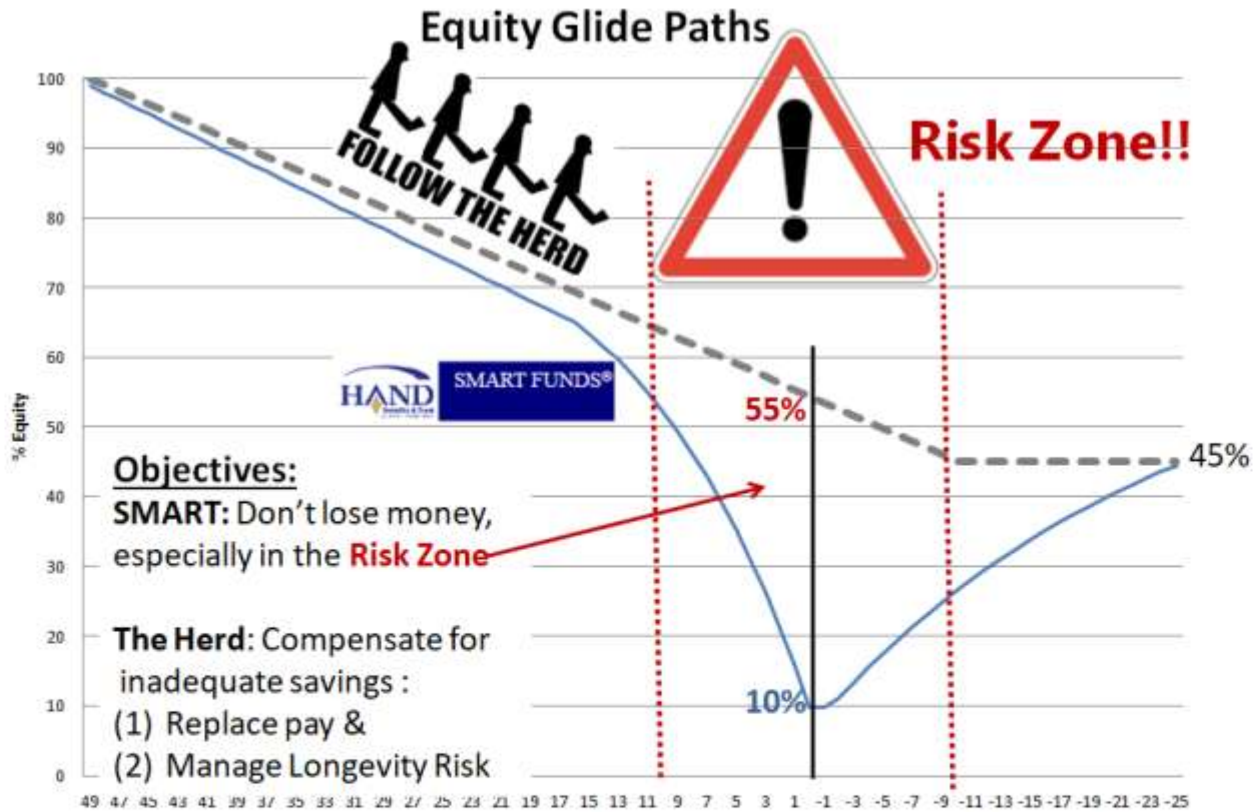
- Target date funds are all pretty much the same, except The SMART Fund Target Date Index that no one has heard of.
- SMART is completely different because it emphasizes Prudence and Wealth Preservation.
- In a nutshell, there are really only two TDF choices – The Herd of look-alikes (pick anyone) or SMART

It may surprise you to know that there is a TDF that is totally different from The Herd and deserves your attention. So far it's been a secret, but I am going to let you in on it in this article. Even though it's been around for a decade, and excelled in the 2008 crash, it has much less invested in it than The Herd, so you'd think something is wrong with it, but quite the contrary there's a lot right with it. It just needs to stop being a secret. This alternative to The Herd is called the [SMART Fund Target Date Fund Index] collective investment funds on Hand Benefits & Trust, Houston. What SMART lacks in Popularity and familiarity it more than makes up for in Prudence beyond compare.



Different Objectives Lead Down Different Glide Paths

Let's begin with a comparison of the two glide paths, as shown in the following:

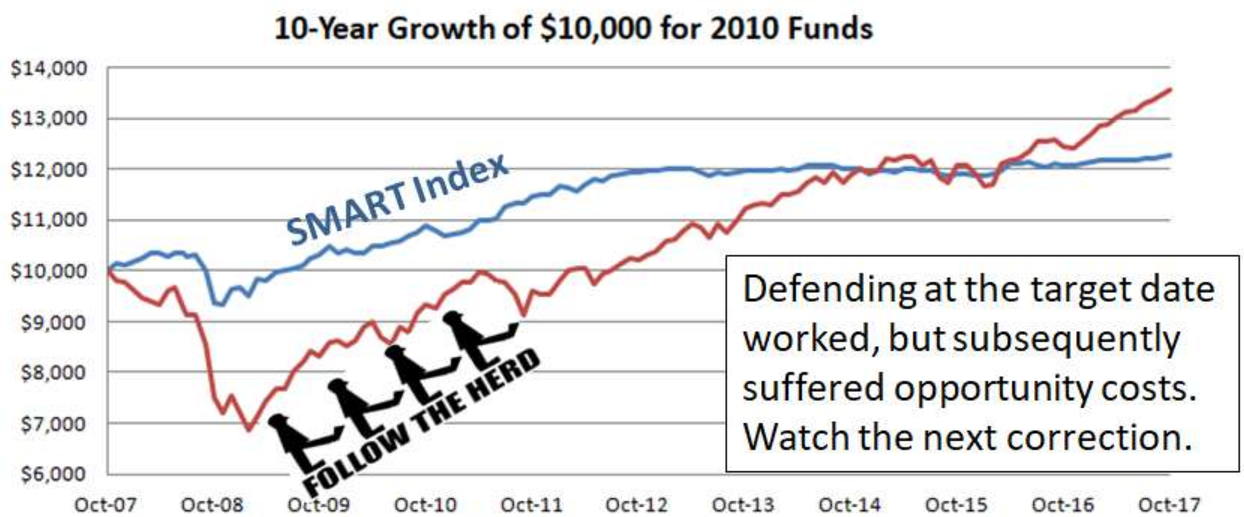


As you can see, the SMART glide path is like The Herd's until it reaches the Risk Zone that spans the 10 years before and after retirement. No copycat here – just a BIG important difference. Losses in the Risk Zone diminish standard of living in retirement or reduce the length of time that savings last, or both. This is because savings are at their highest level in the Risk Zone and Sequence of Return Risk takes hold when spending begins.

These differences arise from completely different and opposing objectives. SMART aims to not lose beneficiary savings, especially in the Risk Zone, so the emphasis is on preservation. By contrast, The Herd attempts to compensate for inadequate savings throughout its glide path, so its objective in the Risk Zone is to simultaneously grow assets and protect them, although it can't realistically achieve both. The Herd sacrifices safety in order to potentially earn higher returns. It's important to recognize that The Herd collects higher fees for higher risk.

Needless to say, there is little doubt that risk is generally rewarded, so a Herd glide path that is riskier near the target date is likely to provide higher returns than the conservative SMART Funds most of the time. But risk takes on another meaning when "retiring with dignity" is the objective. To retire with dignity, beneficiary savings need to be protected when they are most vulnerable and dearly needed, namely in the Risk Zone. Importantly, SMART has **won by not losing**, and will again.

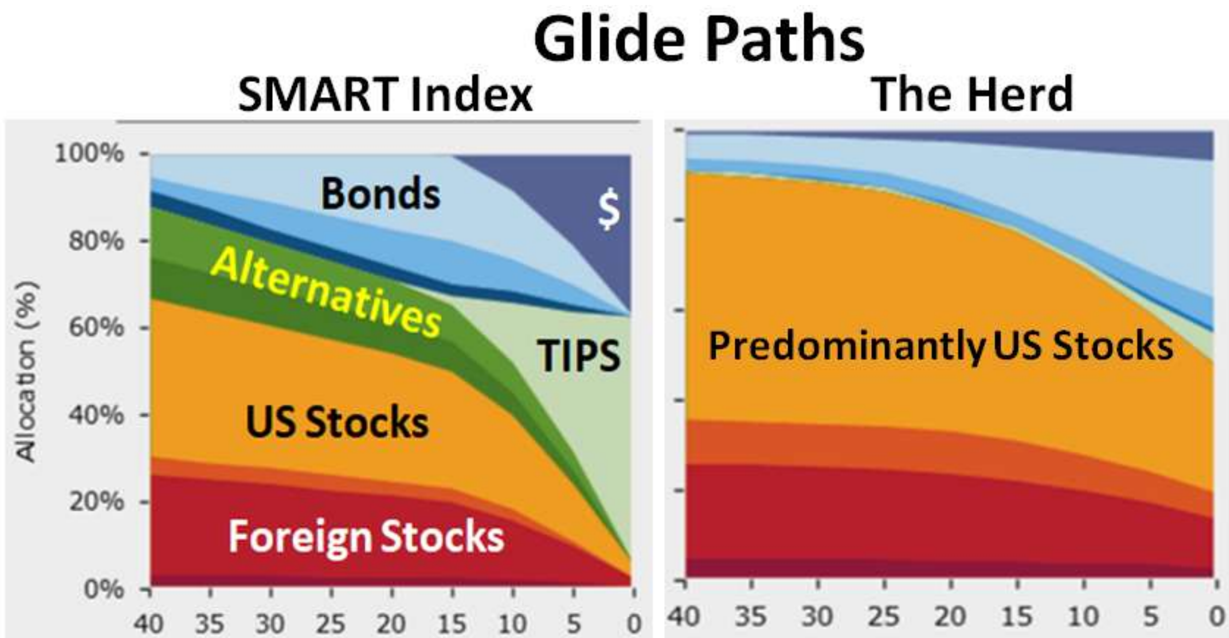
The arithmetic of financial losses is complex and emotional, so a real life example will help. In 2008 the 2010 SMART Target Date Fund Index lost 5% while The Herd's 2010 Funds lost 30%. As a result, SMART investors were wealthier than other TDF investors for the next 6 years, when the riskier Herd Fund caught up. But – and this is the important point – when the next crash happens, the whole scenario will reset, and SMART will shine again.



In summary, safety in the Risk Zone is Prudent, and more important than fees, although cost is the current hot button in TDF selection.

It's Not Just About Fees

Fees are low hanging fruit for lawsuits because they're easy to measure and compare, so excessive fees are currently the basis for successful lawsuits, but there are other factors that go into a Prudent TDF, namely Safety and Diversification. As discussed in the previous section, SMART is the safest TDF. Now let's look at diversification in the following.

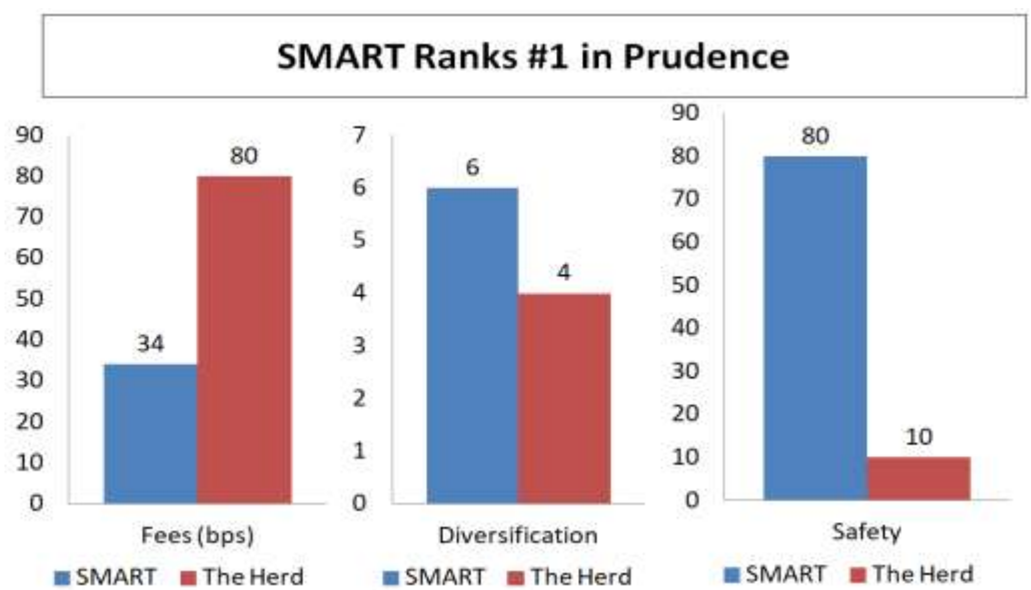


Source: PIMCO Glide Path Analyzer

As you can see, The Herd is heavily weighted in U.S. stocks, and this has benefitted performance over the past 9 years, but not diversification. Concentration in U.S. stocks has paid off, but this is not prudent.

Summary

SMART is not nearly as popular or profitable as The Herd, but it is very unique and different in a good way. It's more [Prudent](), as summarized in the following:



Going for Gold: An Even Smarter Innovation

As good as SMART is, we can do even better with an innovation that achieves the following:

1. Lowers fees below The Entire Herd: lower than the lowest fee
2. Removes the one-size-fits-all deficiency

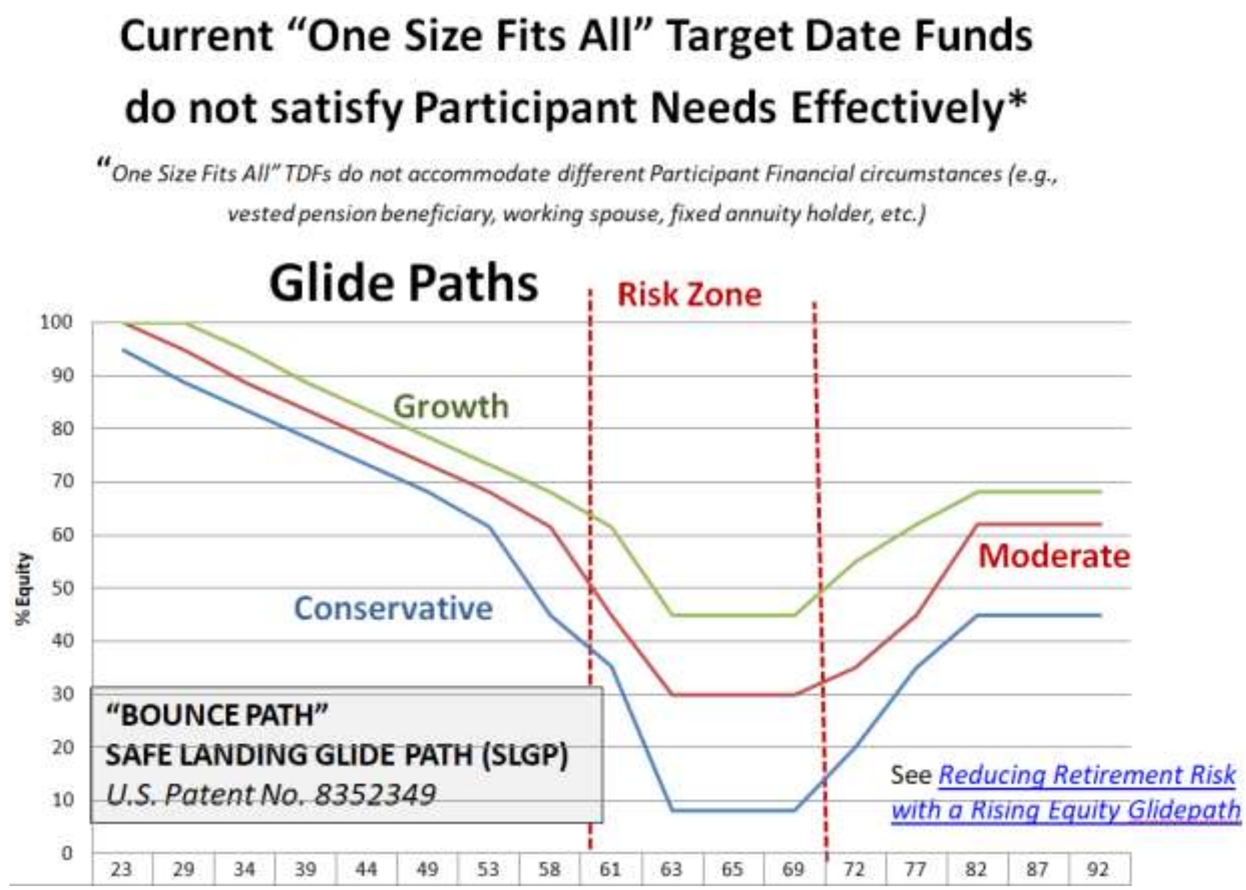
TDFs are still in their infancy, having been born with the Pension Protection Act of 2006, so several shortcomings are being addressed, most importantly the one-size-fits-all problem. Several answers to this problem are currently in development including custom, hybrid and adaptive glide paths. In this section we describe an approach that marries TDFs with Managed Accounts to create Personalized Target Date Accounts (PTDAs). Each participant has a TDF tailored to his(her) unique needs and wants.

The SMART Funds follow the patented Safe Landing Glide Path. PTDAs use this path as the default QDIA and add other paths as options for non-defaulted beneficiaries, as shown in the graph below. Importantly, because the recordkeeper handles all trading and reporting, unitization costs go away. There is no overhead for maintaining a family of mutual funds or collective investment funds. This savings usually reduces total costs below The Herd's 16 bps.

All participants in DC plans have the right to choose their investments. Many will not, and their defaulted assets are placed in the Conservative Personalized Target Date Account that follows the patented Safe Landing Glide Path.

Many who exercise their right to choose do not choose wisely, gambling on investments like yesterday's winners or not diversifying, investing all their savings in one fund. Education is the only cure for this behavior, but trustees cannot create portfolios on their behalf. Trustees can however educate participants on the investment programs inherent in target date funds and participant options regarding risk, namely conservative, moderate or growth.

Self-directing participants can buy into a well-diversified investment program with risk tailored to their needs and wants: a simpler and smarter choice than the current gambles of many.



Conclusion

We all work hard for 40 to 50 years and save what we can for a retirement that lasts another 30 to 40 years. Retirement is the end game. The big problem is that the savings of those in the Risk Zone are currently not protected. These savings are precious. Losses incurred in the Risk Zone force serious reductions in lifestyle and shorten the amount of time that savings will last.

Other than the SMART TDF described above, target date funds are 55% in equities at the target date with the balance in (risky) long term bonds. This is riskier than the mix that lost 30% in 2008. Similarly, the average IRA is 55% in equities for all ages – no effort is made to protect those near retirement.

75 million Baby Boomers are in the Risk Zone and are exposed to way too much risk. They need to take control now and shift the balance to safety before it is too late. The World Economic Forum has identified 30 threats to our stock markets. There will be

another market crash sometime during the next 30 years as Boomers pass through the Risk Zone.

Fiduciaries should recognize that their dependents are not interested in the thrill of running with the bulls when a lifetime of savings is at peril in the Risk Zone.