Best and Worst Performing Target Date Funds in 2011

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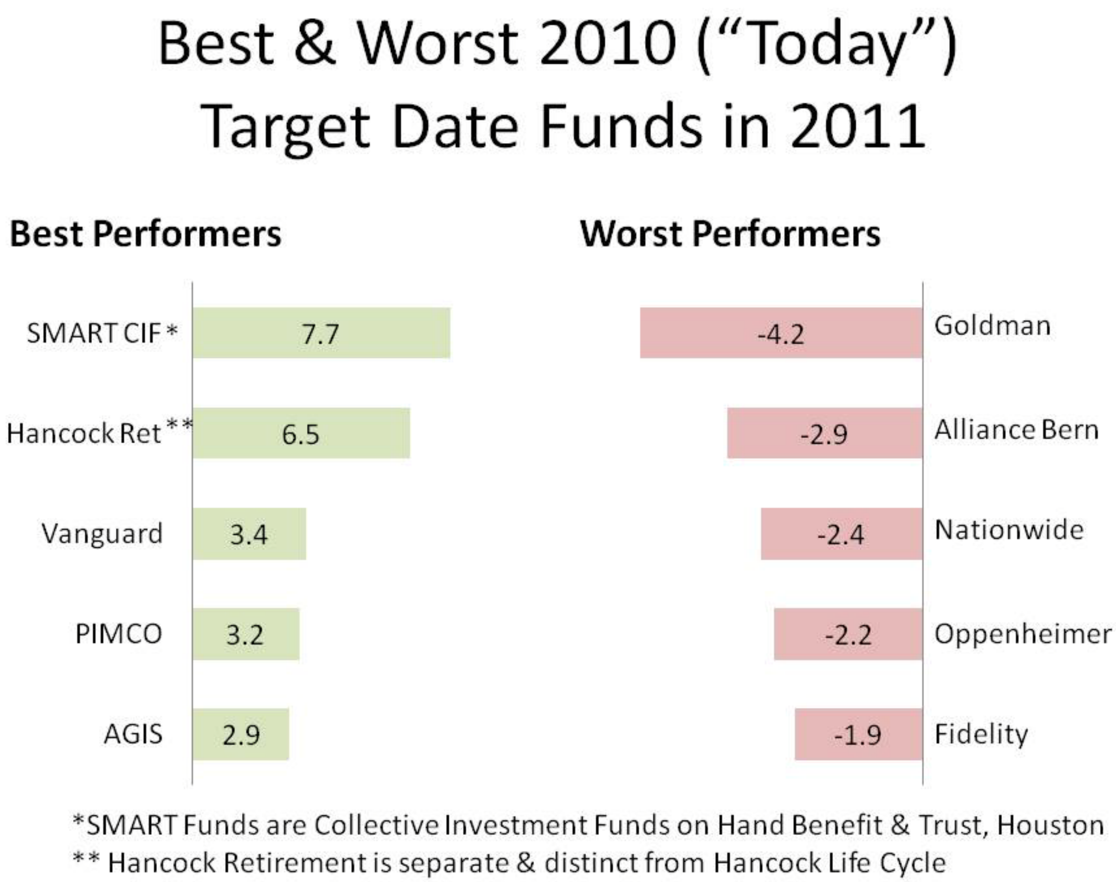
The 2011 performance of target date funds (TDFs) serves as a progress report on protecting the vulnerable, namely those in or near retirement. 2008 was a disaster with the typical 2010 fund losing 25%, so there was an outcry to avoid repeating this mistake in the future. 2011 shows that little has changed, principally because the objective of TDFs has not changed; the (flawed) objective is to compensate for inadequate savings. For the most part TDFs did not defend in 2011. The critical funds for this test are 2010, or "Today", funds because they are for people retiring between 2005 and 2015.



The graph above shows that only a handful of 2010 TDFs avoided loss in 2011. The next time could be worse. Stock performance, as measured by the S&P500, was a positive 2% in 2011, far better than the 37% loss suffered in 2008. TDFs failed this simple and easy trial. The best performing funds in 2011 are those that emphasize safety at the target date. Such funds are in the minority. Most TDFs are designed to compensate for inadequate savings by taking on unwarranted risk. In other words, the objective for TDFs should be revised to safety-first, especially at the target date, but this has not happened. The best way to compensate for inadequate savings is to encourage people to save more. Academics have demonstrated that increased savings are far more effective than increased risk in securing a standard of living in retirement. The job of TDFs should be to get participants safely to the target date with appreciated assets intact.

The next graph below shows the various glide paths of TDFs. Please note the clustering of far-dated funds. There is consensus on the appropriate risk for younger employees. The big disagreements occur near the target date, when account balances are at their highest. TDFs disagree about risk exposure for the vulnerable. I'm personally in the camp that believes safety first is the right fiduciary choice for these default investments, so I've designed the patent pending Safe Landing Glide Path®. The best performing SMART Funds® follow the Safe Landing Glide Path. Note also in the following graph the tendency for equity shops to hold more equities at target date than bond shops, suggesting that TDFs are packages of products rather than solutions such as safety first.