Target Date Fund Performance in 2018

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- Depending on the target date, target date funds lost between 3% and 8% in 2018.
- For perspective, all major asset classes lost money in 2018. Asset class returns range from about zero to a loss of 14%. The S&P500 lost 5%.
- There is no standard for evaluating TDFs but there should be

2018 was a mildly disappointing year for most, including target date fund (TDF) investors. With $2 trillion and 20 million investors, TDF performance is a big deal. Good chance you are invested in a TDF and that it lost money, but the more relevant question is how did you perform relative to what you should have expected. That's what standards are for – to establish expectations. In the following we report on several candidates for a standard although there is no recognized standard, yet. Without a standard we are judging blindly. For an in depth discussion of TDF standards, please see TDF Benchmarks.

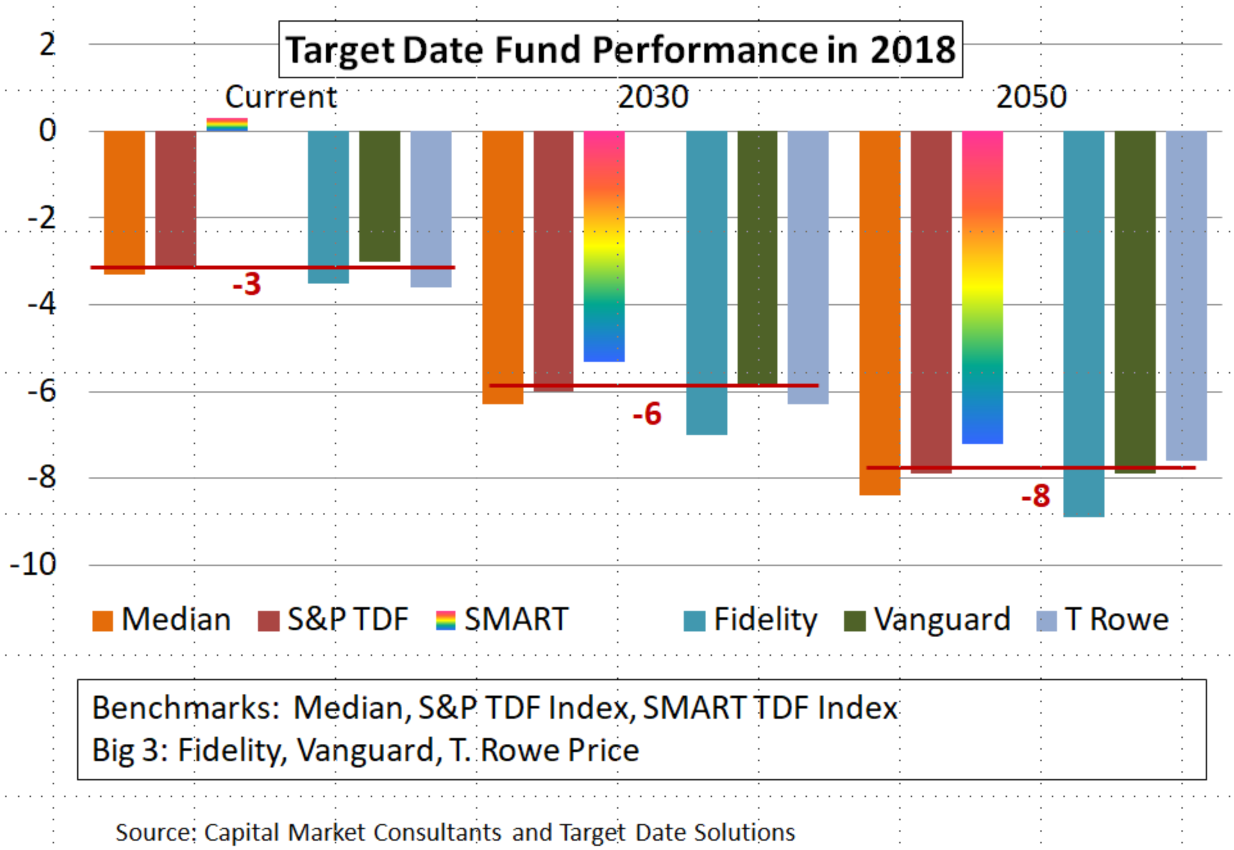
Environment

TDFs are multi-asset fund-of-funds that typically hold the asset classes shown in the following exhibit. As you can see, all asset classes except U.S. bonds lost money in 2018. U.S. stocks, which lost 5%, are the predominant holding in most long-dated TDFs. but as discussed in the next section the average long-dated TDF lost more than this because they also hold some foreign stocks.

Source: The Capital Spectator

Target date fund performance

The following graph shows the performances of several potential standards: the median fund, the S&P TDF Index, the SMART TDF Index, and the Big 3.



The average TDF, as measured by the S&P TDF indexes, lost 3% for current retirees, 6% for those who are retiring in 2030 and 8% for those who are retiring 31 years from now in 2050. The median fund lost a little more than the average fund.

The SMART TDF Index for Current funds was the only fund with a positive return in 2018, due to its conservative (safe) asset allocation. The 2030 and 2050 SMART Funds were also the best performers due to their broad diversification that includes TIPS, gold and real estate.

Fidelity's TDFs were the worst performing due to their higher risk. Fidelity increased equity allocations in 2017.

So what?

Without a standard, we are judging blindly. One or more of the potential standards shown above will make your TDF performance look good, and one or more will make it look bad. Please choose your standard wisely.

We urge you to develop objectives for your TDF and to choose your TDF and its benchmark because it is likely to achieve your objectives. Our recommended objectives are (1) don't lose money, especially near the target date and (2) make as much as you can, but don't lose money.