CONSERVATIVE FINANCIAL SOLUTIONS

TARGET-DATE 2020

When the time comes to start taking a distribution from your nest egg you've worked so hard to accumulate, it's essential to make sure your money will be there. It's no secret, the closer you get to retirement, your investment strategy should be more conservative. Unfortunately, even though most people know this, and even take steps to implement a plan, they sometimes miss the mark. There are two specific reasons why investors may miss the mark, they have their money invested in Target-Date Retirement Funds and Bonds.

TARGET-DATE RETIREMENT FUNDS

Target-Date Retirement Funds have been around since the early 1990's.[1] These funds are a way for investors to choose investment funds, within their 401(k), which target their retirement date. The concept of these funds is quite simple, the investor picks the date closest to the date they plan on retiring. They invest their money in this fund which is designed to automatically shift to investing less in stock and more in bonds as the date of retirement gets closer. Target-Date Retirement Funds seem quite simple, but the problem is RISK.

Let's say for example, you want to retire in the year 2020 and you choose the Vanguard Target Retirement 2020 Fund thinking the plan is a good fit for your retirement in 2 years. According to Morningstar®, based on the funds current holdings, you would be down 27.04% if we had another year like 2008 [2]. Most investors view these funds as a safe investment, but they don't realize the amount of RISK. It's not just Vanguard, it's a similar story for T. Rowe Price, American Funds, BlackRock, JP Morgan, and many of the other major fund providers[3].

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— Roger Ford

BONDS

In the past, bonds were praised as the cornerstone of a conservative portfolio. Bonds provided both principle protection and income for the investor. Over the past 10 years, as interest rates have been declining, capital appreciation has accounted for 45% of bond total return. Since we are now in a rising interest rate environment, these gains are expected to be minimal at best[4], potentially leaving bond investors at a short fall. Moving forward, bonds may no longer be the best option available to investors for principle protection and income due to a LOW RETURN on investment.

Planning for retirement is not something that should be automated through options provided in a 401(k). It takes serious planning in order to take advantage of the endless options and opportunities available to investors. The longer you wait to start planning, the more potential there is to miss out on opportunities. At Conservative Financial Solutions, we work with pre-retirees and retirees to help them avoid the two mistakes mentioned in this article. If you would like to visit with one our Wealth Advisors about planning for your retirement, give us a call and we would be happy to schedule a complimentary consultation. Our focus is helping individuals plan for the second half of their financial life by assisting in hitting the mark.

[1] http://www.ucs-edu.net/cms/wp-content/uploads/2014/04/I_ABriefHistoryOfTargetDateFunds.pdf

[2] Morningstar. (2018). Vanguard Target Retirement 2020 Inv (USD) [mutual fund report]. Retrieved February 8, 2018, from http://library.morningstar.com.

[3] Morningstar. (2018). T. Rowe Price Target 2020, American Funds 2020 Target Date Retirement Fund, BlackRock LifePath® Smart Beta 2020, JPMorgan SmartRetirement® Blend 2020 Fd [mutual fund report]. Retrieved February 8, 2018, from http://library.morningstar.com.

[4] Ibbotson, Roger G., PhD. "Fixed Indexed Annuities: Consider the Alternative." January 2018.

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