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Financial Solutions

Planning & Investments

Qualified Plan Insights

Welcome again to your Qualified Plan Newsletter Fall 2018 edition. It's hard to believe we are already on the home stretch to close out 2018. The faint smell of roasting green chile still lingers as everyone's head is turned skyward to try and spot their favorite balloon at the Albuquerque International Balloon Fiesta. Today we turn to a very popular investment approach found in most qualified retirement plans, and that is Target Date Funds (TDF).

These funds are actively managed funds which use algorithms that calculate risk with respect to a set future date. As the future date (usually a given year) becomes less distant, the portfolio manager automatically reduces the weightings of equity (stocks) vs. fixed income (bonds). Annually, participants will observe that the funds composition will gradually change allocation, i.e. 90% equities / 10% fixed income, to a more conservative allocation, i.e. 30% equities / 70% fixed income. This gradual change is known as the "Glide Slope/Path". Participants may recognize this terminology as it is also used when airplanes are coming in for a landing. As with the landing of an airplane, TDFs have the goal of transitioning from a more volatile situation to a more constant and stable scenario.

The below information is a hypothetical breakdown of a TDFs equity to fixed income composition. (This may not match the fund you are using and is only an example)

Fund	Equity %	Fixed Income %
ABC Fund 2040 Target Date	81%	19%
ABC Fund 2030 Target Date	67%	33%
ABC Fund 2015 Target Date	43%	57%
ABC Fund Retirement	34%	66%

Note that over time the funds not only become more conservative, but even after a participant has passed the target year and has "retired", the fund continues to be managed with a higher weighting of fixed income. After a period, some fund families convert long passed TDFs to what is sometimes called a "Target Date Retirement" fund. An example in todays market would be if a fund had been established as a 2005 TDF, the management company would close this fund and move assets to the Target Date Retirement fund.

When participants are choosing one of these funds, a choice of target date is required but does not necessarily have to correspond with the date the participant expects to retire. A younger individual with an expected target retirement of 2050, may feel this is too aggressive for their liking, and opt for a more conservative 2030 option. The reverse could also be seen with an older participant closer to retirement wishing to be more aggressive.

TDFs can be a great option for beginning investors. They allow participants to begin understanding what it means to save for retirement and the mechanics of the plan, while the investments are being managed by professionals in the field. These professional managers build a portfolio exposed to various geographic areas, sectors, and investment classes that allow TDFs to be a pseudo one stop shop option for retirement fund management and diversification. Furthermore, professional managers will complete a process known as rebalancing, one of the more overlooked tasks by investors. Participant's should still monitor investments at minimum annually, to ensure they continue to meet their current risk profile and objectives.

After a participant becomes more knowledgeable regarding details of their plan and the investment process, diversifying a participant's assets among other investments than just TDFs may occur. Once a participant moves away from their sole investment of a TDF, they now face the responsibilities previously assumed by the managers: investment weighting, rebalancing, investment research, equity to fixed income exposure, etc…

TDFs to have many other attributes which we would love to discuss with you in a one on one environment. We can also help you assess which TDF allocation may be right for you. As always feel free to contact Josh, Phil or Travis should you have any financial questions relating to today's TDF topic, your retirement plan, or your personal financial situation.

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Did you know?????

Target date funds were first introduced in 1994 by Donald Luskin and Larry Tint of Wells Fargo Investment Advisors. According to a May 2018 whitepaper by Morningstar, there was an estimated $70 billion of net flows in total assets into Target Date Funds which represented more than $1.1 trillion in total assets by the end of 2017. This is up from an estimated $40 billion in net flows and $158 billion in total assets at the end of 2008.
https://www.morningstar.com/content/dam/marketing/shared/pdfs/Research/TDF_Landscape_2018.pdf?cid=EMQ_

Index	9/28/2018	Change	% Change	% YTD
Dow Jones Industrial Average	26,458.31	18.38	0.07%	7.04%
S&P 500	2,913.98	-0.02	0.00%	8.99%
NASDAQ Composite	8,046.35	4.38	0.05%	16.56%
Russell 2000	1,696.57	6.05	0.36%	10.49%
MSCI EAFE	1,973.60	-12.30	-0.62%	-3.76%
MSCI Emerging Market	1,047.91	-3.40	-0.32%	-9.54%
CBOE Market Volatility	12.12	-0.29	-2.34%	9.78%
U.S. Treasury 10-Year (YTM %)	3.062	0.9 bps	0.31%	65.6 bps
Barclays U.S. Aggregate Bond	na	na	0.02%	-1.60%
WTI Crude Oil ($/bbl.)	73.25	1.13	1.57%	21.23%
Gold ($/oz.)	1,192.50	9.65	0.82%	-8.48%

Source: Bloomberg. All performance percentages are simple appreciation, which excludes the effect of dividends.
Barclays U.S. Aggregate displays as actual YTD%, as opposed to 12-month, year-over-year performance.

For Index definitions, please visit www.bloomberg.com

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