

Tuesday July 14, 2009 6:00 PM ET
SmartMoney
 It's your money. Be smart.



More

HOME INVESTING SPENDING **PERSONAL FINANCE** TOOLS PORTFOLIO SMALL BIZ

College Planning | Debt | Elder Care | Employment | Estate Planning | Health Care | Insurance | Marriage & Divorce

FINANCIAL HELPLINE: Have a question for SmartMoney? Email ask@smartmoney.com or call us toll-free at 866-219-0687.

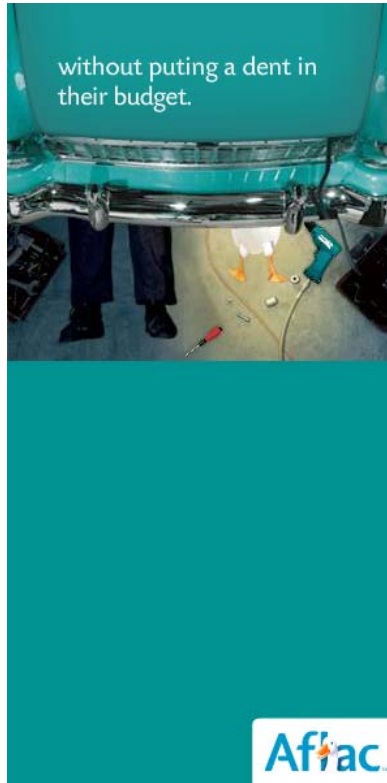
MAGAZINE COVER by Angie C. Marek (Author Archive)

Published April 20, 2009 | A A A

Stretch Your Nest Egg: Target-Date Fund Facts

Editor's Note: Retirement-planning in normal times is like home maintenance—with a little bit of effort and expense, applied regularly over time, you keep your structure sound. But planning right now is like figuring out what to do after a tornado blows your kitchen and garage into the next county. Despite the market's recent rally, many people's nest egg portfolios remain mangled beyond recognition. In this special report, SmartMoney features advice that can help investors roll up their sleeves and rebuild.

TARGET-DATE FUNDS are designed to get defensive over time, moving investors' assets from stocks to bonds and cash so that the portfolios become less risky as the funds (and the investors) get older. In 2006, Congress passed a law allowing retirement-plan sponsors to make target-date funds a "default" option for workers' savings, and over the next two years their assets rocketed up 76 percent. But last year's crash marked their first real test, and many of them failed it—especially those that should have been the most conservative. The average 2010 fund, supposedly designed for someone who would retire next year, lost almost 25 percent in 2008, according to the research firm Lipper. And the most aggressive funds in this group, like **Oppenheimer's Transition 2010 (OTTBX)**, fell more than 40 percent. (An Oppenheimer spokesperson says that "one-year results are not a true assessment of long-term performance.") Talk about a turnaround: Less than three years after green-lighting the funds' wider use, a Senate committee is now investigating their risks.



Investors within a year or two of retiring typically slash their exposure to the stock market to avoid just this kind of problem. "There's no reason a 2010 fund should be swinging for the fences," says Brigham Young professor Israelsen. But investors can't assume funds that share their hoped-for retirement date will match their risk tolerance. Israelsen says it comes down to competition. As the target-date field got more crowded, many funds took on more equity, presumably to generate higher returns. With titans Fidelity, Vanguard and T. Rowe Price making up about 85 percent of the market, funds from smaller companies were especially prone to doing this so they could stand out. **Alan Sparer, a San Francisco-based securities lawyer who has been studying the funds, says their bond holdings can be dicey too; he has seen big allocations of risky derivatives such as commercial mortgage-backed securities in some portfolios.**

The result: big disparities in returns. An investor who put \$1 million three years ago in **AllianceBernstein's 2010 Retirement Strategy fund (LTDAX)** would have seen decent gains for two years. But the latest market turmoil would have knocked her balance down to nearly \$750,000, because the fund had 68 percent of its assets in stock and real estate trusts when the market started to crash last fall. Had she invested that money in the **Wells Fargo Advantage Dow Jones Target 2010 fund (STNRX)**, she would still have \$970,000 today—in part because that fund holds only 27 percent of its assets in stocks. Seth Masters, chief investment officer with AllianceBernstein, says high equity percentages are necessary to help a portfolio last the 30 years people are likely to live in retirement. "Any fund with a longer-term investment perspective did poorly in 2008," he says.

Investors shouldn't necessarily give up on target-date funds. For current shareholders, for example, selling now would mean locking in losses. For those who are several years away from retirement, some planners say that a balanced

MARKETS	MY QUOTES	MOST ACTIVE
Index	Price	Chg. % Chg.
DJIA	8359.49	▲ 27.81 0.33%
Nasdaq	1799.73	▲ 6.52 0.36%
S&P 500	905.84	▲ 4.79 0.53%
Russell 2000	496.52	▲ 3.21 0.65%
10 Yr Bond	3.47	▲ 0.12 3.58%
DJ Total Market Index	9273.50	▲ 55.10 0.60%
S&P 400	564.99	▲ 4.60 0.82%
Nasdaq 100	1452.84	▲ 5.14 0.36%
DJ Transportation	3186.42	▲ 41.81 1.33%

Related Quotes



[View all charts for tickers in this story](#)

Fund Compare

See how the funds on this page stack up.

College Planning

Presented by **SallieMae**

portfolio with a 60-40 ratio of stocks to bonds can do the same job as a target-date fund, with fewer surprises. Across the fund industry in general, balanced funds are slightly less expensive than target-date funds. T. Rowe Price says its research shows that over the long term, target-date funds and 60-40 portfolios can be expected to deliver almost identical returns. One important caveat: Once you're within five years of retiring, a 60 percent stock allocation may be more risky than you want—just ask some of those target-date fund owners.

Read the rest of our special report:

[Stretch Your Nest Egg: Finding the Right Advice](#)

[Stretch Your Nest Egg: 'Guaranteed' Income](#)

[Stretch Your Nest Egg: The Second Career](#)

RELATED STORIES

[What the World's Greatest Investors Are Saying Now](#)
[5 Ways to Make Good Choices About a Funeral](#)
[Breaking Down the Obama IRA](#)

Follow SmartMoney on Facebook, Twitter & More:



Find More Articles About: [Personal Finance](#), [Retirement](#)

[Comments](#) | [Print This Article](#) | [Email](#) | [Trackback](#) | [Receive Email News Alerts](#) | [SHARE](#) | [RSS](#)

To license SmartMoney content and tools, [click here](#)

Advertisements

Bull or Bear market? Get stock forecast by Forbes columnist
 Go Acela - Book at Amtrak.com
 Join TD AMERITRADE and trade free for 30 days + get \$100.
 Free stock symbol lookup: Scottrade stock research
 Switch to thinkorswim and get 3 mutual fund trades on the house.
 Take advantage of great special offers on BlackBerry® smartphones and BlackBerry solutions.
 Offer employees Aflac and improve your benefits package at no direct cost.
 Ally Bank offers top rates and no sneaky disclaimers. FDIC insured.
 Click to Take FPL's FREE Online Home Energy Survey and Start Saving!
 Economy Survey Corp International Country Reports
 CDs and High Yield Savings Accounts from American Express
 Get a Free Blackberry Smartphone at E*TRADE Securities
 Learn Currency Trading Online and How to Choose a Forex Broker
 SmartMoney Magazine - A smart investment. Subscribe for only \$1 an issue.
 Practice No Risk Trading at optionsXpress



Intel posts strong second quarter results: Sign of a recovery?

When tough times come, semiconductor companies are among the first to see their sales fall. So when ... [Read More](#)

[Teen tech behavior sets the blogsp...](#)

[Editor search rolls on at the Obser...](#)

More on DailyFinance >>

RELATED LINKS

[Stock Quotes](#) | [Stock Charts](#) | [Stock Ticker](#)
[BloggingStocks](#) | [Market News](#) | [Walletpop](#)
[Small Business](#) | [Investing](#) | [Luxist](#)

MOST READ | MOST EMAILED | MOST COMMENTS

- 10 Things Eye Doctors Won't Tell You
- 10 Cheap Ways to Care for Your Car
- For Buffett Fans, the Price Is Right
- 5 Small Companies Offering Big Stock ...
- The World's Greatest Investors: Rodri...
- 8% Returns: The Bond Deals You're Mis...
- 10 Things Plastic Surgeons Won't Tell...
- What the World's Greatest Investors A...
- The New Surge in Solar
- Financial ETFs Up on Rosier Bank Outl...



[SmartMoney Mobile](#) | [Customer Service](#) | [Magazine Customer Service](#) | [Subscribe to SmartMoney Magazine](#) | [Your Profile](#) | [Contact Us](#)
[About Our Ads](#) | [Corrections](#) | [Custom Publishing](#) | [License Our Content](#) | [Media Kit](#) | [Press Room](#) | [Events](#) | [Site Map](#) | [Labs](#) | [RSS](#)



smSmallBiz™ SMARTMONEY® Layout and look and feel of SmartMoney.com and smSmallBiz.com are trademarks of SmartMoney, a joint venture between Dow Jones & Company, Inc. and Hearst SM Partnership. © 1995 - 2009 SmartMoney. All Rights Reserved. By accessing and using this page, you agree to our [Privacy Policy](#) and [Terms of Use](#). All quotes delayed by 15 minutes. Delayed quotes provided by Interactive Data Real-Time Services, Inc.. Historical prices and fundamental data provided by Morningstar, Inc. Mutual fund data provided by Lipper. Mutual Fund NAVs are as of previous day's close. Earnings estimates provided by Zacks Investment Research. Insider trading data provided by Thomson Financial. Upgrades and downgrades provided by Briefing.com.

You Are Viewing: [SmartMoney.com](#) — [Investing](#), [Saving](#) and [Personal Finance](#).

Sponsored Links

1 Sexy Stomach Rule: Obey

I Cut Down 3 lbs of Body Fat Every Week by Obeying this 1 Simple Rule
HelensDiet.com/Secret

4.25% Fixed Rate Refinance

Refi & Save with DPR®! No SSN Req. As Featured on CNNMoney & Forbes.
DeltaPrimeRefinance.com

2009 Diet Of The Year

See which weight-loss product was voted #1 by Consumer Health News
www.HealthNews.com

DON'T Pay For White Teeth

Learn the trick, discovered by a mom, to turn yellow teeth white w/ \$10
www.SharonsTeethStory.com

Loan Rates at Record Lows

Refinance to a low APR. \$300,000 for \$1,634/mo. Fixed. No SSN required
Getsmart.com

[Buy a link here](#)