What's Your Target?

When faced with the decision as to how to allocate their 401(k) investments, plan participants can be confused and overwhelmed by the choices. "How much risk should I take?" "How do I determine the risk I am taking?" "Are my portfolio choices consistent with my retirement goal?"

Compounding the issues related to initial portfolio selection is that the typical 401(k) participant does not actively review their account to make sure the investments chosen are meeting their objectives (assuming the objectives have been defined) and they do not rebalance the accounts periodically. The typical investor who is watching their account may in fact work against their own best interests by reacting to ups and downs of individual funds by selling losers and putting more into winners, while sometimes warranted, this is the opposite of buying low and selling high. Beyond putting away as much as possible, the factors that are important to success are creating the appropriate portfolio and rebalancing back to that target portfolio on a regular basis.

Fortunately, many plans offer an easy solution to these dilemmas. Target-date funds offer a one-step solution, which is increasingly available in 401(k) plans. As a plan advisor myself, I try to include a full menu of target-date funds in the plans I work with and designate those funds as the default fund selection for participants.

The concept behind the target-date funds are portfolios constructed by profession portfolio managers designed for a specific retirement year, or "target-date." The funds are "funds of funds" where the professional managers will make the underlying choices and importantly adjust the portfolio composition as the target retirement year approaches and rebalance as needed due to market movements. As a single investment, it also shows the progress of the entire portfolio without the potential distraction of seeing specific winners and losers. The portfolios will be allocated toward more risk the further from the target year (i.e. when the investor is younger) and adjust toward a more conservative allocation as the target year approaches and the investor ages. A one-stop solution. These alternatives are also available outside of employer-sponsored retirement savings plans.

While this is all simple enough, and that certainly is the intent, there are a few important considerations to be aware of. Almost every major fund company offers a target date line-up and some plan providers construct target-date funds from multiple-fund and exchange-traded fund (EFT) families. The first decision to make when choosing a target date fund is the target year. The obvious choice may be the year you turn 65, but many of us plan to work longer or hope to retire earlier. Additionally, the risk level is typically moderate across target years. Therefore, if you are someone who is more comfortable with investment risk, you may choose a target year a little further out from your intended retirement. Conversely, if you are risk-averse, you may choose a target year sooner than your intended retirement. In either case, you get the benefits of the professional management, the automatic rebalancing and risk adjustment for your retirement savings.

There are a few other factors to consider when evaluating target-date choices. First is what is referred to as the fund's "glide path." This refers to the allocation of the portfolio and how it adjusts, or glides, toward the target date. Some are more aggressive longer while others become more conservative sooner. If your target-date choice has a more conservative glide path and you have a higher risk tolerance, you may want to take that into consideration when selecting your target year.

Another consideration related to the glide path is what happens once the target year is reached. Some target-date series will continue adjusting "through" retirement, while others only adjust "to" retirement. While an important point of difference, it is not a critical factor until the target date is reached.

How the investments are managed may be different as well. Some target-date series will exclusively use actively managed mutual funds, while others may be exclusively comprised of lower-cost, passively managed ETFs. Finally, some target series will be hybrids that mix both passive and active funds in their portfolios. The relative merits of active versus passive asset management are beyond the scope of this article but watch this space in the future.

So, while there are still several things that are important to consider when using target-date funds over a self-constructed portfolio, the decision process and ongoing attention required is simplified allowing the investor to focus on the number one factor to achieve retirement goals, saving as much as possible.

Erik Ford is the owner of Ford Wealth Management LLC in Glen Ellyn, IL. He is a CFP® certificate holder as well as an Accredited Investment Fiduciary®.

Registered Representative. Securities offered through Cambridge Investment Research, Inc., a broker-dealer, member FINRA/SIPC.

Investment Advisor Representative Cambridge Investment Research Advisors, Inc., A Registered Investment Advisor. Cambridge and Ford Wealth Management are not affiliated.

Ford
Wealth Management LLC
Independence - Integrity - Insight
Erik G. Ford, CFP®, AIF®
Financial Advisor
800 Roosevelt Road
Building A Suite 240
Glen Ellyn, IL 60137
fordwealthmanagement.com
Office 630.545.2800
Mobile 312.804.9464
erik@fordwealthmanagement.com
Registered Representative. Securities offered through Cambridge Investment Research, Inc., a broker-dealer, member FINRA/SIPC. Investment Advisor Representative Cambridge Investment Research Advisors, Inc., A Registered Investment Advisor. Cambridge and Ford Wealth Management are not affiliated.

"Our commitment is to bring peace of mind to our clients and their families by providing professional, compassionate and quality care."
Helping Make Your Life Easier
Lux Home Care
630.480.7173
www.luxhomecare.com
Fully bonded, licensed, and insured home care organization providing service to the Glen Ellyn community for over 22 years.

The Glen Ellyn Chamber of Commerce
presents
10th Winter Showcase Fashion Show
Presented by:
Glen Ellyn Chamber of Commerce
Portion of the proceeds benefit the scholarship fund for the:
Sapphire Sponsors
mac
Gold Member Sponsors
Sunday, November 3, 2019
Abbington Distinctive Banquets
3S002 Route 53 Corner of Route 53, Glen Ellyn
11:00a.m. Social/Silent Auction
12:00p.m. Luncheon • 1:00p.m. Fashion Show
Fashion Commentator
Lisa Parker · Consumer Investigative Reporter NBC 5 Chicago
Tickets $50 • Table Discounts Available
Tickets may be purchased glenellynchamber.com/fashion or (630) 469-0907