

# Amoco

BY HOWARD MCEWEN

# autopilot

Lifecycle funds are one answer to investor apathy and low saving rates, but do they address boomer demands for greater customization? >>

Lifecycle funds, the latest ease-of-use investment offerings from the mutual fund industry, continue to stir debate in the financial advisor community. With such future sounding names as Putnam's Retirement Ready 2015 and Vanguard's Target Retirement 2035, they automatically rebalance the client's investment to a more conservative allocation as a target date, usually retirement, draws near. But are they a suitable investment choice for clients or simply another marketing angle for fund companies?

Supporters say they're easy for investors to understand and offer an automatic pilot, buy-it-and-forget-it approach to investing. Critics contend that lifecycle funds assume all investors are alike; a 30-year-old self-employed contractor with four kids should have the same allocation as a 30-year-old unmarried schoolteacher who participates in a state-sponsored retirement plan.

Regardless of the controversy, the Investment Company Institute reports that lifecycle funds garnered more than \$70 billion in assets from 1996 through 2005, with defined contribution plans accounting for \$48 billion of those assets.

"We've found that, historically, when they first came out, they might have been for the more unsophisticated investor," says Kristin Gibson, director of retirement services with Tacoma, Wash.-based Russell Investment Group, which claims \$11 billion in its version of the lifecycle funds. "But I think that feeling has really shifted in the industry. A lot of people, savvy [investors] or not, don't have the time to select and manage the asset allocation of their portfolio over a long period of time."

Bob Johnson, managing director of the CFA Institute, the organization that administers the Chartered Financial Analyst exam, agrees.

"I think [lifecycle funds are] very positive for the uninitiated investor," Johnson says. "The recognition that one's asset allocation should change as [his] circumstances change is fundamental. The whole of what



we teach in the CFA program is to look at their investment policy statements and take any changing circumstance into account."

Research supports Gibson and Johnson's conclusions. A landmark 1995 study published in the *Financial Analyst Journal*, "Determinants of Market Performance," concluded that asset allocation, rather than stock picking or market timing, accounts for 93.6 percent of a portfolio's return.

The Russell Investment Group, which claims \$11 billion in its LifePoints Target Date Portfolios, recently conducted an advisor survey that listed automatic rebalancing as an important client benefit. Other benefits listed by respondents included built-in

diversification and ease-of-use functionality.

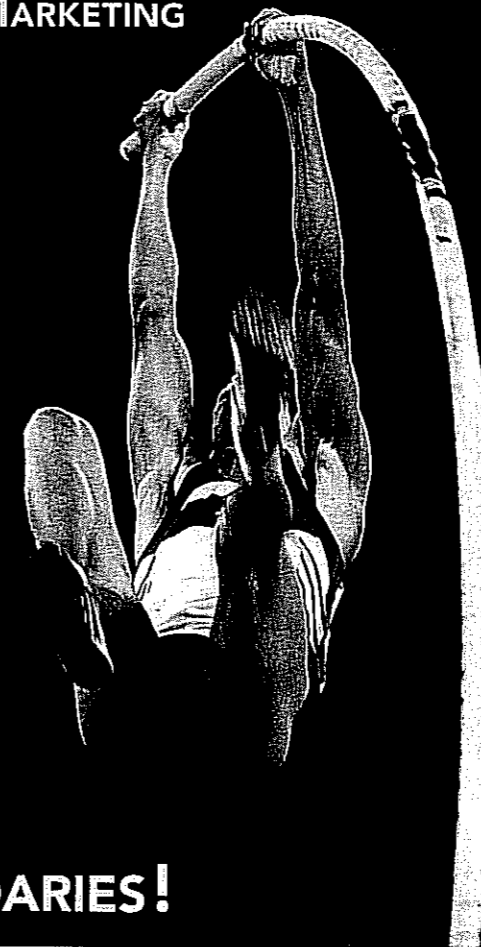
But if lifecycle funds are a valid investment option, who are they appropriate for?

"In 401(k)s, I love lifecycle funds for unsophisticated investors," says Tom Holding, CFP, CLU, an advisor with Lincoln Financial Group and a past president of Financial Planning Association of Cincinnati. "I have a lot of plans, and I can count on one hand the participants who rebalance. They don't do this for a living. With lifecycle funds, they can put their asset allocation on autopilot and forget it."

Holding uses Alliance Bernstein's Retirement Strategies lifecycle funds in several defined contributions plans. But for his

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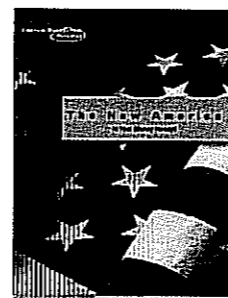
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individual clients outside of company plans, Holding takes a more hands-on approach.

"I don't use them for my individual clients," he says. "I have minimums of \$200,000 for individuals and \$1 million for estates. Once a client gets over \$100,000, I can use separately managed accounts that are much better. Also, with separate accounts, I can do a few things to protect the portfolio that they can't do with a lifecycle funds."

Dan Candura, CFP, founder of Braintree, Mass.-based Penny Tree Advisors, agrees that lifecycle funds are good for smaller clients and dismisses the charge that lifecycle funds are simply a marketing angle.

"I would use them with clients who don't have a lot to invest," Candura explains. "I will often tell them to use a lifecycle fund because it's an easy way to go. If someone wants simplicity, it's a very inexpensive way to do it. I don't see it as a marketing hype. Yes, it is a one size fits all, but so is air travel. I could take a private jet to Los Angeles, or I could just get on a plane with everyone else. The marketing occurs with those advisors who think everyone should have their own asset allocation. The reality is that staying invested, holding onto the funds, and not jumping around is what works."

But the CFA Institute's Johnson cautions against overuse, emphasizing that regardless of their benefits, lifecycle funds still pale in comparison to the role of a professional advisor.

"I wouldn't oversell these funds like they are the panacea for somebody that is trying to accumulate funds for retirement, because certainly people's circumstances are different," he says. "If someone has the financial means, availing themselves of financial counseling and using a financial advisor is a better way to go about things than simply relying on lifecycle funds. A financial advisor is going to take a person's unique circumstances into account." **■**



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