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## MUTUAL FUNDS REPORT: Funds That Age With Their Investors

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FOR many investors, finding the right mix of stocks and bonds is a task better left to a professional. But there is a middle ground between going it alone and hiring a financial adviser: picking a mutual fund that blends stock, bond and money market funds all in one, and that tailors the investment mix to the approximate year you plan to retire.

Fund companies like Fidelity Investments, T.Rowe Price and Vanguard offer these portfolios, also called life cycle or target maturity funds, which try to strike a balance between growth and income and continuously adjust the allocation as retirement grows nearer. For example, a 30-year-old worker who expects to retire at 65 might choose a 2040 fund, which would start with an aggressive investment mix providing a relatively high concentration in stocks, then taper toward conservatism as that target year approached.

These all-in-one portfolios can be useful for people who are struggling to manage their investments. But, as usual, buyers need to be wary because the funds are not all built alike. Some are much more aggressive than others; one fund, for example, may hold far more stock than a rival's fund aimed at investors of the same age. And costs can vary widely.

For instance, on the low end of the cost spectrum are Vanguard's target maturity funds, which do not charge loads, or sales charges. Annual management fees vary slightly, but all of the funds charge below a quarter of 1 percent a year.

Among maturity funds that do bear loads, Wells Fargo's Outlook funds are typical in offering several investment options. Investors who work with an adviser or a broker may select from three classes of shares and costs. For example, someone who worked with a third party to buy Class A shares of these funds would be assessed a sales charge of up to 5.75 percent on top of annual fees of 1.25 percent; someone who bought the Class B shares would pay up to 5 percent of the original investment when redeeming or withdrawing funds but would pay annual expenses of 2 percent. (The deferred load shrinks gradually until the seventh year, when the shares convert to Class A.) The Class C shares carry a 1 percent deferred load (or zero percent after one year) with 2 percent annual expenses.

The Outlook funds hold individual securities or groups of securities rather than several mutual funds.

Marilyn Williams, a businesswoman in Beaumont, Tex., picked a no-load, target maturity portfolio from T.Rowe Price, with a 0.79 percent annual fee, because it looked like an inexpensive and convenient choice.

"It was a good way to get some diversification without the hassle of having to go and do it yourself," said Mrs. Williams, a co-founder with her husband, Jeff Williams, of a golf store called Games People Play that operates online and in conjunction with a practice range. Mr. and Mrs. Williams, both 49, have moved some but not all of their retirement funds into T.Rowe Price's 2020 portfolio.

Target maturity funds have grown in popularity. Their assets grew 54 percent from the end of 2001 through last December, according to the Financial Research Corporation in Boston. During 2004, investors poured \$14.5 billion into target maturity funds, up from \$7.3 billion in all of 2003, the company said.

Some employers have redesigned their retirement plans around target maturity funds. Richard L. Menson, a partner at the law firm McGuireWoods who focuses on employee benefits, helped revise his firm's 401(k) and profit-sharing plans in September 2002, when the firm, based in Richmond, Va., began to enroll new employees automatically into one of T.Rowe Price's life cycle funds that corresponded to their expected retirement dates.

Before the change, new employees had to sign up if they wanted to participate in the 401(k); if they didn't choose a fund, they were placed in a balanced fund that was invested 60 percent in stocks and 40 percent in bonds. But nearly a third, or 462 of the 1,700 plan participants, had stuck with the balanced fund regardless of their age or tolerance for risk, Mr. Menson said.

That static mix "really didn't work for everybody across the board, from 20- to 60-year-olds," he said.

In theory, once investors pick a target portfolio from 2005 to 2045, corresponding to their expected retirement, they don't have to make another investment choice, even after retirement. The fund company that they choose selects a mix of stock, bond and money market funds that begins with a heavier weighting of stock funds and shifts more toward bonds each year, usually until about seven years after retirement. Then, in most cases, the asset allocation stops changing.

T.Rowe Price's target maturity funds are more aggressive in their stock allocations than those of several other companies. T. Rowe Price Retirement 2025, for example, allocates 86 percent of assets to stock funds, compared with 60 percent for Vanguard's Target Retirement 2025. At retirement, the T.Rowe Price fund would have 55 percent of its assets in stocks; over the next 30 years, that percentage would dwindle to 20, where it would stay.

"We spend a lot of time focusing in on risk, and the biggest risk we concluded in our analysis is outliving your assets," said Jerome A. Clark, portfolio manager of T.Rowe Price's retirement funds.

THAT concern is shared by Catherine D. Gordon, a principal in Vanguard's investment counseling and research group, but she said she was even more worried that stock market losses could reduce investors' assets, particularly as their retirement date approached. Vanguard focused on the unpleasant fact that if the stock market declined 50 percent in the first three years of an investor's retirement, the portfolio would be unlikely to recover adequately, Ms. Gordon said. "This is as much about minimizing the losses as it is about improving the returns," she said.

The composition of individual mutual funds varies from company to company in other ways. Vanguard puts only index funds in its portfolios. These help lower expenses while also making it easy for investors to keep track of their underlying investments, Ms. Gordon said.

Fidelity, on the other hand, uses actively managed funds to build its target maturity portfolios. It also grants its managers greater flexibility in asset allocation so that they can emphasize areas of the stock and bond markets that they believe will be most lucrative, said John F. Sweeney, a senior vice president at the company. Fidelity also tries to avoid large moves in and out of stock or bond funds on specific dates, he said.

"It would be fairly easy to set it and forget it," Mr. Sweeney said. The Fidelity portfolio managers look at the funds every day in search of the best opportunities, he said.

Other fund companies, like American Century, go beyond investing in stocks and bonds in the United States and other developed countries. American Century puts into its mix investments like emerging-market equity funds, international bonds, domestic real estate funds and inflation-adjusted bond funds. Research shows that with this breadth of diversification, the weak years of the various assets tend to be more than offset by the strong ones, said Gina Sanchez, portfolio manager for the firm's asset allocation funds.

"They really do bring down the risk in the portfolios," she said.

But while target maturity funds may help investors who lack diversification, or who do not rebalance their portfolios regularly, they may not be adequate for those who have more complex needs or who want to take a more hands-on role, said Scott M. Kahan, a certified financial planner and principal of the Financial Asset Management Corporation of New York. "You really have no control over your portfolio," he said.

That simplicity is a big part of their appeal for investors like Mrs. Williams. She said she used to mark her calendar to remind herself to rebalance her retirement accounts or to transfer funds into them. She is looking forward to eliminating that chore. "We're real busy," Mrs. Williams said, mentioning that her business has 27 employees. "That's the last thing I want to worry about."