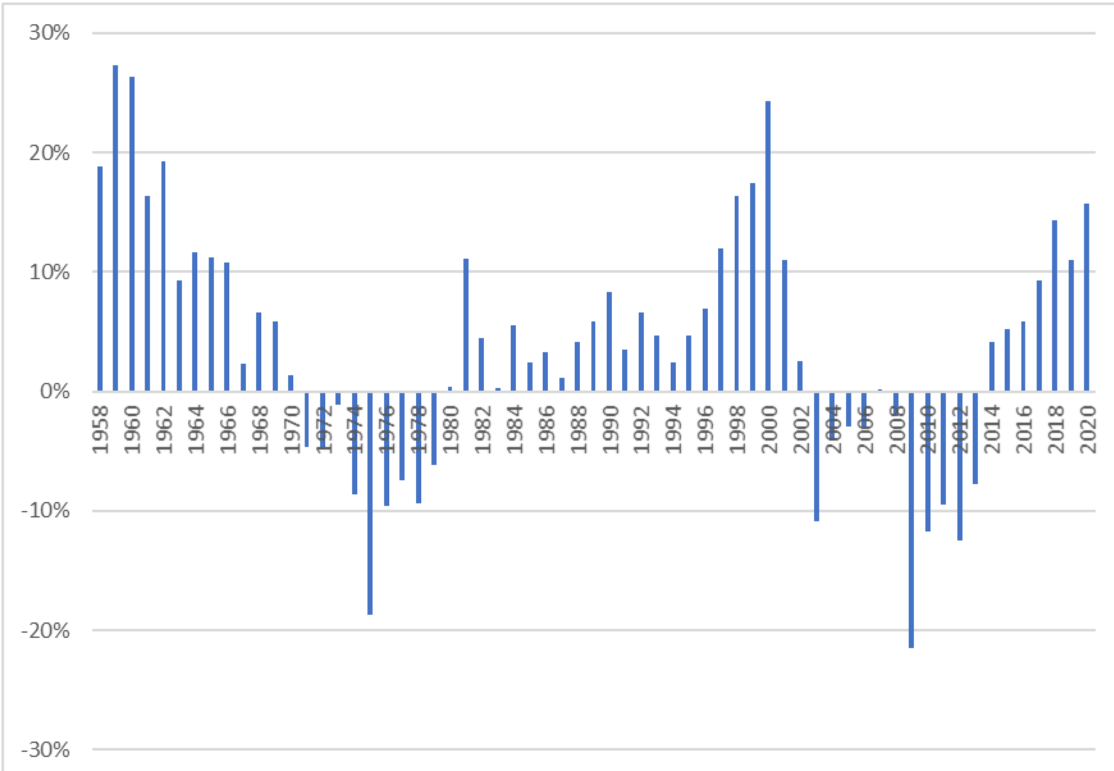
The motivation for this study is a recent meeting with a couple who asked me to conduct a retirement feasibility study. They had hoped to retire within a year or two. Surprisingly, their portfolio was 100% stocks; very risky. The stock decline caused by the Coronavirus pandemic was already underway and their portfolio had already declined 20%. They said that they had planned to add less risky bonds ***when*** they retired. A safer strategy is to start to reduce portfolio risk many years before the planned retirement date. That's the strategy used by target date retirement mutual funds. As an example, one fund maintains a portfolio of 90% stocks and 10% bonds until fifteen years before the target retirement date. It then gradually increases the bond allocation until the portfolio reaches 50% stocks and 50% bonds at the target date.

Some commentators have argued against this approach. Stocks usually increase in value and target date funds reduce them toward the end of a career when the portfolio is presumably its largest. At that point even small stock returns can have large dollar impacts on retirement savings. Of course, the opposite is also true. A large (or even moderate) stock decline can set back a planned retirement date by many years.

I tested both approaches using historical stock and bond returns over rolling thirty year saving periods. The first thirty year period is 1928 through 1957, 1929 – 1958, etc. The last thirty year period is 1990 through 2019. That's sixty-three rolling periods in total. The target date portfolio started 90/10 stock bond and stayed that way until fifteen years from retirement. At that point the bond allocation increased linearly each year until reaching 50/50 at the target date at the end of the thirtieth year. The other approach was an 80/20 stock/bond allocation that never changed. Each portfolio started with $1000 to which $1000 was added annually.

It's no surprise that the more aggressive 80/20 portfolio ended with larger value in 43 of the 63 periods (68% of the time). The chart below shows how much larger or smaller the 80/20 portfolio was compared to the target date portfolio. For example, for the thirty years ended 1999, the 80/20 was 24% larger than the target date portfolio as it enjoyed the dot com run up. For the period ending 2009, the more aggressive 80/20 declined more during the financial crisis and finished 21% smaller than the target date portfolio. This was its worst performance.

The two other periods in which the more conservative target date portfolio performed better was for the periods ending during the bear market of the early 70's and the dot com bust of the early 2000's.




Maintaining a high stock allocation can be thought of as rolling the dice with the hopes of finishing with more. In some cases, lack of planning or an unforeseeable spending shock may induce some to attempt a "hail Mary pass" in the form of a more aggressive portfolio. This is really a gamble and the prospective retiree could end up in a worse position. Better to take the more conservative approach by adding bonds sooner. Early planning will greatly increase the chances of retiring on time even in the event of spending shocks or poor market performance.

C. Ryan CFP®