

Hello SEC,

Regarding Target Date Funds , Chairman, Schapiro states that “if there’s any confusion or misunderstanding caused by these funds, then we need to clear that up”. With respect, my observation is that there is little other than confusion and misunderstanding on the part of investors.

I understand that you have invited representatives of various interests to testify at a hearing on Target Date Funds. I would like to make a couple comments in the “for whatever its worth” department.

First, I hope you are planning to gain input from sources other than the format of inviting in-person testimony in D.C. Those who have the time and motivation to speak in this venue will be 99% representatives of the vested advocates, i.e. the fund industry. If they have constructive comments it will likely be based on the premise that the concept simply needs some fine tuning and leveling of the playing field. If you’re serious about examining the real issues, this input will do little more cloud the issues.

Second, from their first introduction, I saw huge flaws in the concept. It was painfully easy to predict what would happen within the financial products industry, and equally easy to predict how investors would react to the concept. Once investors were in these Funds, it was another easy prediction as to what Target Date investors would do as the performance data began to accumulate.

I do not pretend to be exceptionally sage on these matters. The concepts are very fundamental. Fund companies were destined to compete with each other in the only ways that average naïve investors measure, i.e., perceived performance, and perceived safety. Thus, the theory was going to be bent and stretched and ultimately given little more than a perfunctory role, as product sponsors vied to gain short-term advantage (with a couple exceptions). Investors were bound to be lured in by the simplistic notion that somehow, the Target Date funds would smooth out their ride while keeping them close to the peak of everyday performance. Thus, investors chose mostly funds that had performed well recently, regardless of the “Target Date”. Finally, investor patience has proved about the same as with other funds. Target Date investors jump to other funds as irrational disappointment inevitably settles in.

One might ask whether the Fund companies themselves are trying to educate investors to evaluate Target Date Funds more appropriately? If you’ll get your hands on a good sample of the advertisement literature, especially from the “no-load” companies, you will find that not only are they not working on the education need, they’re relying on the same old performance game. The financial media has done only modestly better.

Now, if you can get the historical data on investor behavior with Target Date funds forced out with some degree of objectivity, I’d say the next task is to challenge the Fund companies to describe just how their recent abandonment of principles will be changed so that “Target Date” does not become just another term for “moving target”. Good luck.

--Russ Gurley