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Navigator Newsletters[SM]

A GUIDE TO MUTUAL FUNDS AT FIDELITY

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"My second Cardinal rule of investing is to NEVER invest in a retirement target fund, ever! These are funds that are marketed as a turnkey approach to retirement. The funds have various retirement dates in their names to lure in investors. The come on is straight forward, all one has to do is pick a fund targeted closest to their projected retirement date. The target date takes it from there, reallocation holdings as the retirement date nears. For example: An individual who is age 45 thinks he/she will retire in 20 years would likely choose a retirement 2030 fund. In theory, this fund is managed with a retirement date of 2030 in mind, which would match our hypothetical investor. The fund manager is supposed to reallocate the fund into more conservative investments as the retirement date nears. Sounds like a straight forward, easy, great idea, right? All you need to know is your approximate retirement date and select a fund that matches it; the fund manager does the rest. Fidelity, Vanguard and Principal have raked in billions with this 'concept.'

"Do the funds live up to the hype? Let's see. To me the biggest attraction these funds would have is if they did indeed proactively reallocate the portfolio to reduce the risk as you got within 10 years of retirement and eliminated nearly all of it by 5 years out.

"The bad news is that Fidelity Freedom 2010 fund and Vanguard Target Retirement 2010 fund both lost more than 20% in 2008! I know the markets plunged that year, but a 2010 retirement fund should have been almost completely out of the market by then. In fact, the markets hit an all-time high of 14,000 in October 2007, so why didn't the fund manager sell then? How can a retirement fund dated 2010, with over 60% of its assets in equities, not reduce its exposure at the all time high? The answer is because the retirement funds are comprised of other funds in the same fund family, so the manager does not have all of the control you would think. Fidelity funds in a Fidelity fund, Vanguard funds in a Vanguard fund and of course Principal funds in a Principal fund. It gets worse, the Fidelity Freedom Fund 2005, yes 2005, lost 24% in 2008! The fund is "managed" to match a post-retired objective and should have to protect investors from these types of loses.

"The following fund objective is taken directly from the Fidelity Freedom Fund 2005 Prospectus dated May 30, 2009 under Principal Investment Strategies. 'Investing in a combination of underlying Fidelity equity, fixed-income, and short-term funds using a moderate asset allocation strategy designed for investors expected to have retired around the year 2005. Allocating assets among underlying Fidelity Funds according to an asset allocation strategy that becomes increasingly conservative until it reaches 20% in domestic equity funds, 35% in investment-grade fixed-income funds, 5% in high yield fixed-income funds, and 40% in short-term funds (approximately 10 to 15 years after the year 2005).'

"According to Value Line Mutual Fund Analysis, the Fidelity Freedom 2005 fund had almost 40% in equities as of June 30, 2009. That is twice the amount suggested by the prospectus, a full four and a half years after the retirement date. Also, the fund had almost 8% invested in international equities such as Europe, Emerging Markets, Japan and Southeast Asia. I read the prospectus, and I did not see where international equities would or could make up for 8% of the fund. In summary, these well packaged, expensive, one size fits many funds do not live up to the hype. I prefer you spend your retirement napping, rather than have the fund company "spend" your retirement asleep at the wheel.

"The worst of the bunch is Principal Investments. They have a retirement fund series called the "lifetime" funds. Their 2010 lifetime fund LOST 30% in 2008! With less than two years until the retirement date, how can the fund be positioned to lose 30%? To make matters worse, Principal has their lifetime funds installed in their "independent" Principal 401(k) plans. Can you say class action suit. There is no way Principal, Fidelity, or Vanguard can claim their 2010 retirement funds stand up to shareholder expectations."