Is It Time to Rebalance Your Retirement Plan Account?

PlanPILOT

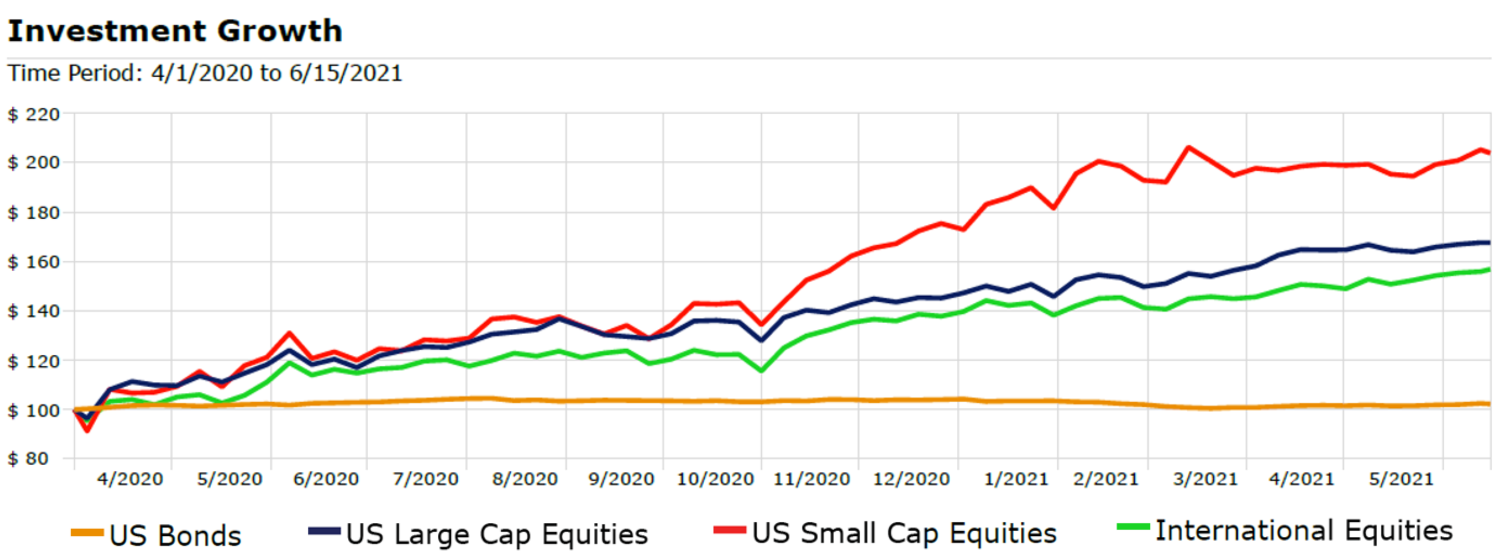
If you are **not** 100% invested in a target date fund, now may be a good time to take a closer look at how your retirement account is invested. We encourage investors to review their accounts and consider rebalancing after a significant stock market pullback. Similarly, we also encourage investors to review and **rebalance** their retirement accounts, as appropriate, after a significant stock market run-up.

The act of moving dollars between investments to reset your account to the appropriate percentage of dollars invested in each of your investment funds

If you are invested 100% in a target date fund, then your underlying investments are automatically rebalanced on a regular basis to maintain an appropriate allocation to stocks and bonds for the **time horizon** you have selected. Therefore, for target date investors, it is critical that you ensure you have selected the fund with a target year that most closely aligns with your projected retirement date.

The amount of time remaining before you will begin using and relying on the dollars you have saved/invested. For example, for a 45-year-old who intends to retire at 65 and expects to live until 85, we would estimate their investment time horizon as ranging from 20-40 years.

Now, let us present the reason for this message. Since April 2020, we have seen historically high returns in many investment categories:



Index Representations: US Bonds – Bloomberg Barclays US Aggregate bond Index; US Large Cap Equities – S&P 500 Index; US Small Cap Equities – Russell 2000 Index; International Equities – MSCI EAFE Index

In the wake of these unusually high returns over a relatively short period, individual investment allocations may now be more aggressive than intended. **Example:** For someone who rebalanced their investments on March 31, 2020 to a mix of 60% invested in stock funds and

40% in bond funds (or other conservative investments), their **asset allocation** would have likely changed significantly in the past 14 months based on the growth in equities captured above. Given the strong stock market run-up, this individual could now have 70% or more invested in stock funds. This large shift in allocations would have occurred due to the significant growth in stock funds versus much slower growth in bond funds and other conservative investments.

The percentage of dollars maintained in each investment category. An example of a target asset allocation is as follows: 50% US stocks, 20% international stocks, 30% US bonds (meant for illustration purposes only)

Please note that we encourage investors to align their asset allocation strategy with their risk tolerance – typically tied to age and investment time horizon. **We do not advocate for trying to time the market.** Rather, we are encouraging investors to rebalance their investments from time-to-time to reset to the intended investment strategy.

In general, younger investors with a longer time horizon should allocate their investments much differently than older investors with a shorter time horizon. Generally speaking, investors should be slowly reducing their allocations to stock funds as they get older and have less time to recover from significant market pullbacks.

Final Note: For individuals who are not invested in a target date fund, you may want to compare your investment strategy against your plan's target date fund that aligns with your projected retirement date. You may have personal reasons for investing either more or less aggressively than the comparison target date fund; however, your asset allocation strategy should be justified, and it may be prudent to reassess your asset allocation if your strategy is substantially different.

This communication is intended to be educational, and not to provide specific investment advice.