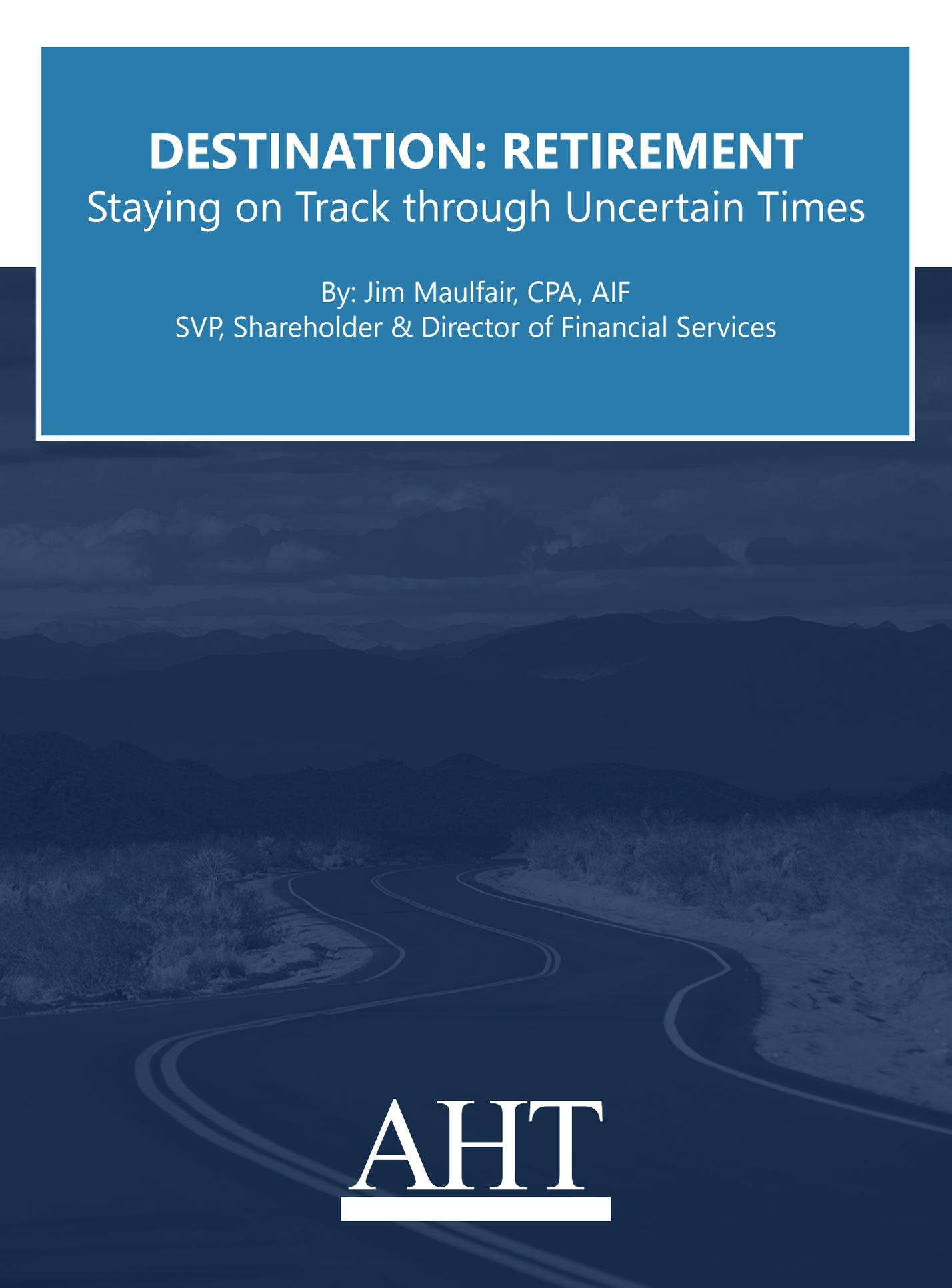


# DESTINATION: RETIREMENT

Staying on Track through Uncertain Times

By: Jim Maulfair, CPA, AIF  
SVP, Shareholder & Director of Financial Services

A photograph of a winding asphalt road through a mountainous landscape. The road curves through the foreground and middle ground, leading towards distant, hazy mountains. The sky is filled with soft, white clouds. The overall color palette is muted, with blues, greys, and earthy tones.

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**2020 has presented several new challenges for investors and retirement plan participants.**

The global pandemic, and other unprecedented market disruptors, have caused tremendous amounts of uncertainty, not only in the world, but also in the markets.

One thing we know is that the market does not react well to uncertainty. This uncertainty has caused some similarities in the markets as those seen in the 2008 and 2009 global financial crises. However, the investor's behavior has been drastically different. This can be attributed to several different measures/factors that have led to more favorable participant outcomes.

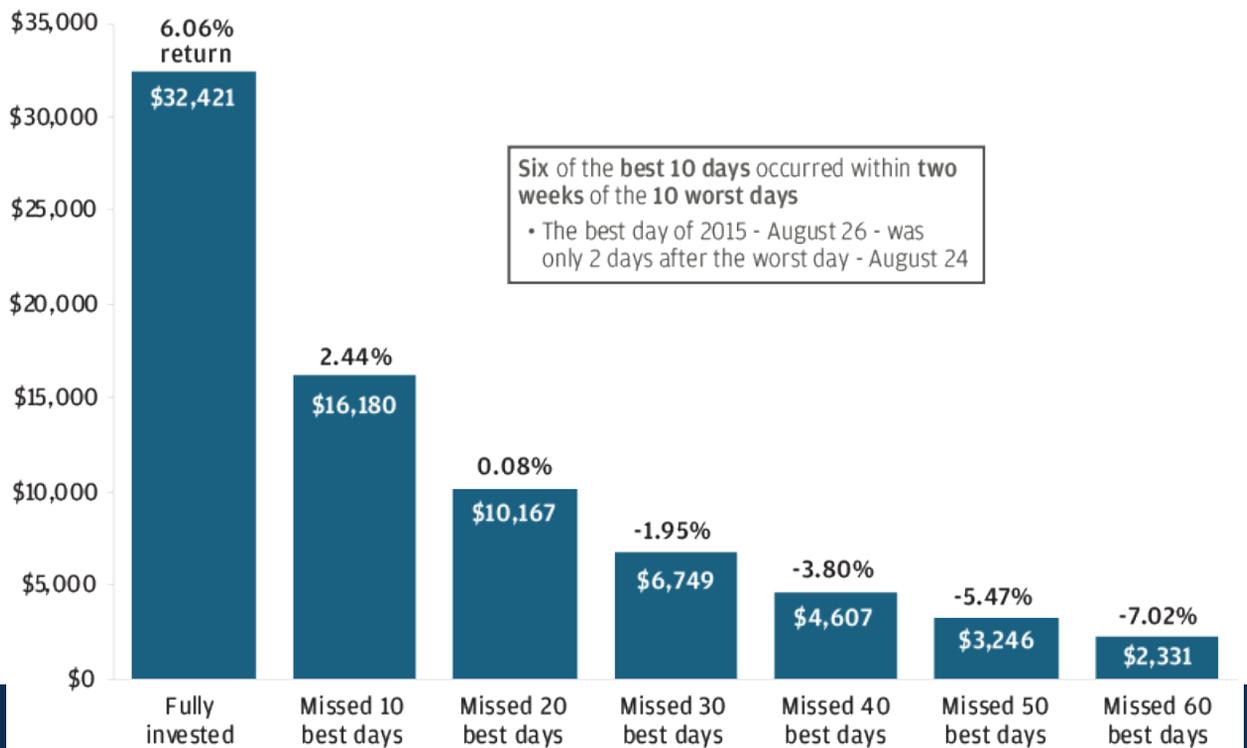
Investors across the retirement plan landscape have taken a different approach to investing during this market downturn. As an industry, we have noticed that education has aided participants with keeping calm (all things considered), utilizing the tools and resources available to diversify their assets and keeping a long-term perspective. Participant education has become a cornerstone and requirement for plan sponsors who prioritize successful retirement outcomes for their participants.

## STAYING THE COURSE – TIME IN THE MARKET VS. TIMING IN THE MARKET

Retirement plan participants are understandably concerned about their retirement assets, given global pandemic driven market turmoil, as well as geopolitical and domestic issues. The S&P 500 has recently touched levels **30% below its February 19 peak**, and its best and worst days over a 20-year window have occurred within weeks or even days of each other. While watching an investment drop in value can cause some concern, selling it does nothing more than lock in the loss and prevent participants from profiting from any subsequent gains. This was the case as we saw the market rebound at an unprecedented rate, erasing all its losses from the first and part of the second quarter of 2020 by the first week of June. As illustrated in the graph below, gains occur during a few strong, yet unpredictable, trading days. Benefiting from those strong trading days requires an investor to be in the market for the long term.

### Returns of the S&P 500

Performance of a \$10,000 investment between January 3, 2000 and December 31, 2019 :



Source: J.P. Morgan Asset Management analysis using data from Bloomberg; data as of December 31, 2019. Returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Indices do not include fees or operating expenses and are not available for actual investment. The hypothetical performance calculations are shown for illustrative purposes only and are not meant to be representative of actual results while investing over the time periods shown. The hypothetical performance calculations for the respective strategies are shown gross of fees. If fees were included, returns would be lower. Hypothetical performance returns reflect the reinvestment of all dividends. The hypothetical performance results have certain inherent limitations. Unlike an actual performance record, they do not reflect actual trading, liquidity constraints, fees and other costs. Also, since the trades have not actually been executed, the results may have under- or overcompensated for the impact of certain market factors such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. Past performance is not indicative of future returns. An individual cannot invest directly in an index.

# ASSET ALLOCATION

If this market has proven anything, it has proven that it will remain unpredictable and volatile. An investment portfolio needs to be positioned for ALL scenarios. The onset of the pandemic proved that picking one asset class can be very risky. Some safer assets have not performed as one would expect them to – while others have.

The only reliable way to protect assets in a volatile environment is by diversifying risk across several asset classes. Effective asset allocation and diversification ensures that losses in one asset class can be partially offset by gains elsewhere. The best performing funds tend to rotate; there will always be one or two assets that do outperform. History suggests that a portfolio with the appropriate asset allocation reduces the overall volatility while still taking advantage of those asset classes that are performing well.

|                      |                       |                      |                       |                       |                       |                       |                       |                       |                      |                       |                      |                       |                       |                       |                       | 2005 - 2019          |                       |
|----------------------|-----------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------------|-----------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------------|-----------------------|
| 2005                 | 2006                  | 2007                 | 2008                  | 2009                  | 2010                  | 2011                  | 2012                  | 2013                  | 2014                 | 2015                  | 2016                 | 2017                  | 2018                  | 2019                  | YTD                   | Ann.                 | Vol.                  |
| EM Equity<br>34.5%   | REITs<br>35.1%        | EM Equity<br>39.8%   | Fixed Income<br>5.2%  | EM Equity<br>79.0%    | REITs<br>27.9%        | REITs<br>8.3%         | REITs<br>19.7%        | Small Cap<br>38.8%    | REITs<br>28.0%       | REITs<br>2.8%         | Small Cap<br>21.3%   | EM Equity<br>37.8%    | Cash<br>1.8%          | Large Cap<br>31.5%    | Fixed Income<br>5.0%  | Large Cap<br>9.0%    | REITs<br>22.2%        |
| Comdty.<br>21.4%     | EM Equity<br>32.6%    | Comdty.<br>16.2%     | Cash<br>1.8%          | High Yield<br>59.4%   | Small Cap<br>26.9%    | Fixed Income<br>7.8%  | High Yield<br>19.6%   | Large Cap<br>32.4%    | Large Cap<br>13.7%   | Large Cap<br>1.4%     | High Yield<br>14.3%  | DM Equity<br>25.6%    | Fixed Income<br>0.0%  | REITs<br>28.7%        | Cash<br>0.5%          | REITs<br>8.3%        | EM Equity<br>22.1%    |
| DM Equity<br>14.0%   | DM Equity<br>26.9%    | DM Equity<br>11.6%   | Asset Alloc.<br>25.1% | DM Equity<br>32.5%    | EM Equity<br>19.2%    | High Yield<br>3.1%    | EM Equity<br>18.6%    | DM Equity<br>23.3%    | Fixed Income<br>6.0% | Fixed Income<br>0.5%  | Large Cap<br>12.0%   | Large Cap<br>21.8%    | REITs<br>-4.0%        | Small Cap<br>25.5%    | Asset Alloc.<br>-9.3% | Small Cap<br>7.9%    | Comdty.<br>18.6%      |
| REITs<br>12.2%       | Small Cap<br>18.4%    | Asset Alloc.<br>7.1% | High Yield<br>-26.9%  | REITs<br>28.0%        | Comdty.<br>16.8%      | Large Cap<br>2.1%     | DM Equity<br>17.9%    | Asset Alloc.<br>14.9% | Asset Alloc.<br>5.2% | Cash<br>0.0%          | Comdty.<br>11.8%     | Small Cap<br>14.6%    | High Yield<br>-4.1%   | DM Equity<br>22.7%    | Large Cap<br>-9.3%    | EM Equity<br>7.8%    | Small Cap<br>17.7%    |
| Asset Alloc.<br>8.1% | Large Cap<br>15.8%    | Fixed Income<br>7.0% | Small Cap<br>-33.8%   | Small Cap<br>27.2%    | Large Cap<br>15.1%    | Cash<br>0.1%          | Small Cap<br>16.3%    | High Yield<br>7.3%    | Small Cap<br>4.9%    | DM Equity<br>-0.4%    | EM Equity<br>11.6%   | Asset Alloc.<br>14.6% | Large Cap<br>-4.4%    | Asset Alloc.<br>19.5% | High Yield<br>-11.3%  | High Yield<br>7.2%   | DM Equity<br>17.3%    |
| Large Cap<br>4.9%    | Asset Alloc.<br>15.3% | Large Cap<br>5.5%    | Comdty.<br>-35.6%     | Large Cap<br>23.5%    | High Yield<br>14.8%   | Asset Alloc.<br>-0.7% | Large Cap<br>16.0%    | REITs<br>2.9%         | Cash<br>0.0%         | Asset Alloc.<br>-2.0% | REITs<br>8.6%        | High Yield<br>10.4%   | Asset Alloc.<br>-5.8% | EM Equity<br>18.9%    | EM Equity<br>-16.6%   | Asset Alloc.<br>6.6% | Large Cap<br>14.0%    |
| Small Cap<br>4.6%    | High Yield<br>13.7%   | Cash<br>4.8%         | Large Cap<br>-37.0%   | Asset Alloc.<br>25.0% | Asset Alloc.<br>13.3% | Small Cap<br>-4.2%    | Asset Alloc.<br>12.2% | Cash<br>0.0%          | High Yield<br>0.0%   | High Yield<br>-2.7%   | Asset Alloc.<br>8.3% | REITs<br>8.7%         | Small Cap<br>-11.0%   | High Yield<br>12.6%   | REITs<br>-16.7%       | DM Equity<br>5.3%    | High Yield<br>10.9%   |
| High Yield<br>3.6%   | Cash<br>4.8%          | High Yield<br>3.2%   | REITs<br>-37.7%       | Comdty.<br>18.9%      | DM Equity<br>8.2%     | DM Equity<br>-11.7%   | Fixed Income<br>4.2%  | Fixed Income<br>-2.0% | EM Equity<br>-1.8%   | Small Cap<br>-4.4%    | Fixed Income<br>2.6% | Fixed Income<br>3.5%  | Comdty.<br>-11.2%     | Fixed Income<br>8.7%  | DM Equity<br>-17.7%   | Fixed Income<br>4.4% | Asset Alloc.<br>10.0% |
| Cash<br>3.0%         | Fixed Income<br>4.3%  | Small Cap<br>-1.6%   | DM Equity<br>-43.1%   | Fixed Income<br>5.9%  | Fixed Income<br>6.5%  | Comdty.<br>-13.3%     | Cash<br>0.1%          | EM Equity<br>-2.3%    | DM Equity<br>-4.5%   | EM Equity<br>-14.6%   | DM Equity<br>1.5%    | Comdty.<br>1.7%       | DM Equity<br>-13.4%   | Comdty.<br>7.7%       | Small Cap<br>-21.1%   | Cash<br>1.3%         | Fixed Income<br>3.4%  |
| Fixed Income<br>2.4% | Comdty.<br>2.1%       | REITs<br>-15.7%      | EM Equity<br>-53.2%   | Cash<br>0.1%          | Cash<br>0.1%          | EM Equity<br>-18.2%   | Comdty.<br>-1.1%      | Comdty.<br>-9.5%      | Comdty.<br>-17.0%    | Comdty.<br>-24.7%     | Cash<br>0.3%         | Cash<br>0.8%          | EM Equity<br>-14.2%   | Cash<br>2.2%          | Comdty.<br>-24.5%     | Comdty.<br>-2.6%     | Cash<br>1.0%          |

Source: Barclays, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management. Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Barclays Global HY Index, Fixed Income: Bloomberg Barclays US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg Barclays 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg Barclays US Aggregate, 5% in the Bloomberg Barclays 1-3m Treasury, 5% in the Bloomberg Barclays Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period of 12/31/04 – 12/31/19. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns. Guide to the Markets – U.S. Data as of April 30, 2020.

As illustrated on the previous page, an appropriately diversified portfolio minimizes the peaks and valleys an account will experience over time. **Through April 30th, a diversified portfolio was only outperformed by fixed income and cash from a return's perspective. What does this mean?**

**1** This confirmed that, not only will a diversified portfolio provide competitive returns, but between 2005 and 2019, it was the **third least volatile asset class** compared to other asset classes.

**2** **Fixed income and cash** were the only asset classes that experienced less volatility – what this does is:

**REINFORCE** that those participants who have an appropriately diversified portfolio may not only experience less volatility but may also lead to stronger outcomes, and

**ALLOW** retirement plan participants to retire at an appropriate age and on their terms

## TARGET DATE FUNDS AND AUTO FEATURES HAVE GREATLY IMPROVED OUTCOMES

The evolution, availability, and utilization of target date funds (TDFs) have drastically increased since 2008. According to PSCA, in 2008 57.7% of plans made target date funds available to participants and an average of 8.4% of participants utilized the funds. This has trended up significantly in 2018, as 68.6% of plans offered TDFs with 20.7% utilization. We are continuing to see this trend even higher throughout 2019 and 2020. The availability is even more prevalent in larger plans with over 5,000 lives, with 79.2% providing the option to participants. Target Date Funds, coupled with automatic features, such as automatic rebalancing, automatic enrollment and automatic escalation, have allowed participants to maintain a disciplined strategy while maintaining a long-term view.

We have seen those participants who are invested in TDF's correlate with less movement between investments compared to 2008. Retirement plan participants who were in target date investments during the market volatility made less investment changes with a lower exchange rate than those making their own investment allocations. According to T.Rowe Price's plan sponsor participant reaction report, those participants closer to retirement (within the next 10 years) accounted for the majority of the investment changes in target date funds. Conversely, younger plan participants in target dates with longer investment time horizons until retirement stayed the course and made fewer changes.

The target date is the approximate date when investors plan to start withdrawals. The funds offer continuous rebalancing over time to become more conservative as investors approach their planned retirement date. A target date fund's stated asset allocations may be subject to change. Investments in these options are not guaranteed and an investor may experience losses, including losses near, at or after the target date. Additionally, there is no guarantee that the options will provide adequate income at and through an investor's retirement.

Source: Plan Sponsor Council of America 2008 edition | Source: Plan Sponsor Council of America 2018 edition



## HOLISTIC PARTICIPANT EDUCATION PROGRAMS

Education about staying the course and proper investment allocation appears to be paying off. Data has shown that plan participants who chose to manage their own investments are making less overall investment changes compared to 2008. According to industry studies (Empower & Alight Solutions), 1.5% of participants actively reallocated investments, with most activity occurring in early March. However, 2020's first quarter data does show that more changes were made in the first quarter than what we have seen in the past 5 years and the highest since the third quarter of 2008.

While more participants are making the appropriate decision and staying the course, those who are making changes may deviate from their retirement course and negatively impact asset allocation strategies. Of those participants who reallocated investments, 50% went from equity to fixed income (stable value, money market and bond funds) at a time that equities were down, and 37% moved from diversified asset allocations (target date funds) to less diversified investments. This could negatively impact the participants' ability to participate in future market rebounds and make them more vulnerable to volatility.

We have seen directly that those clients who participate in a holistic financial wellness program were more likely to resist the urge to make the wrong investment changes, with 99% of our clients' participants who utilize these programs not making investment changes during this time.

Having access to an impactful, engaging, meaningful and effective education program has improved retirement plan participants' overall confidence. The most impactful education programs utilize technology, multiple mediums and individual education counseling with professionals. These programs have improved participant outcomes and continue to drive positive behaviors. Of our clients who utilized multiple mediums, 98% of participants continued to contribute at their current level. Additionally, 4.2% of the participants increased their contribution rate during this time.

The opinions expressed in this commentary are those of the author and may not necessarily reflect those held by Kestra Investment Services, LLC or Kestra Advisory Services, LLC. This is for general information only and is not intended to provide specific investment advice or recommendations for any individual. It is suggested that you consult your financial professional, attorney, or tax advisor with regard to your individual situation. Comments concerning the past performance are not intended to be forward looking and should not be viewed as an indication of future results.

Source: Empower Retirement – A Snapshot in time: Sponsor and participant reactions during the COVID crisis 2020  
Source: Alight Solutions - <https://alight.com/research-insights/alight-solutions-401k-index-first-quarter-2020>

## CONCLUSION

Participants are more prepared today to weather the turmoil of market events such as the Coronavirus Pandemic. The evolution of asset allocation funds and comprehensive educational outreach empowers them in their retirement journey. These tools and steps are designed to help retirement plan participants begin to save early, contribute consistently and maintain appropriately diversified portfolios that reduce risk as participants near retirement. The participant education experience and methods of delivering that education have truly changed since the 2008 global financial crisis for the better and has improved retirement outcomes for the retirement plan participant.

As history has proven time after time, we will recover from this global pandemic and future market & economic disruptors and continue to improve the overall financial health of the American investor.

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The AHT logo is displayed in white, bold, serif capital letters. The letters 'A', 'H', and 'T' are stacked vertically, with the 'A' on top, 'H' in the middle, and 'T' at the bottom. A thick white horizontal bar is positioned directly beneath the 'T'.