DELTA
INVESTMENT
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Delta Insights
a weekly commentary on investing

September 21, 2018

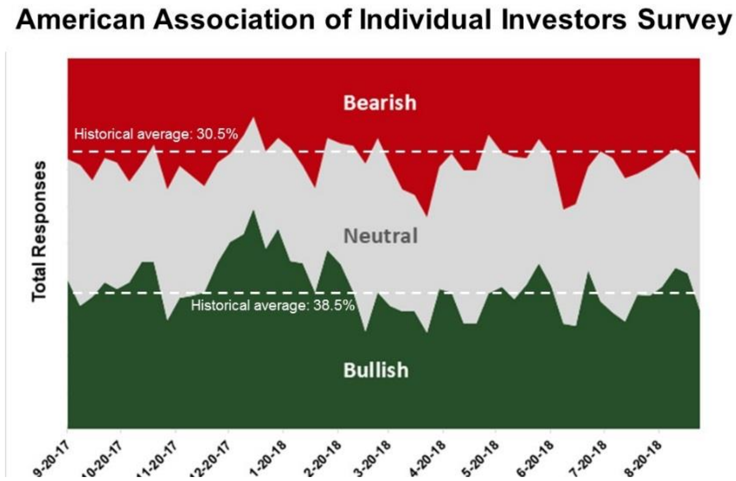
Crowded Trade: Target Date Funds

One of the most important things we have learned over our years in the financial markets is beware of the crowd.

We follow the money to determine where a crowd is building. One very good source of money flow information is mutual fund companies. We regularly meet with portfolio managers and senior analysts from mutual fund companies as we invest in mutual funds for clients (we also invest in stocks and ETFs). In recent meetings with two of the largest mutual fund companies in the country, we were told they are seeing money flowing predominately into money market funds, very short duration fixed income and target date funds.

In a rising rate environment, we think short duration fixed income makes sense – for the part of your portfolio that needs fixed income. However, when the “majority” of fund flows are into cash-like instruments and short-duration fixed income, it is a clear indication that retail investors remain cautious on stock investing. We see no signs of “irrational exuberance.” This subdued stock investment sentiment is bullish.

The American Association of Individual Investors (AAII) surveys their 150,000 membership weekly to measure investor sentiment. Last week, the bullish sentiment reading dropped to a six-week low of 32.1% vs. historical average of 38.5%. What is being reported about cautious fund flows by mutual fund companies is being corroborated in the AAII sentiment survey. As the father of value investing Benjamin Graham liked to point out, “The investor’s chief problem, even his worst enemy, is likely to be himself.”



Target Date Funds – A Marketing Gimmick? A Big Mistake?

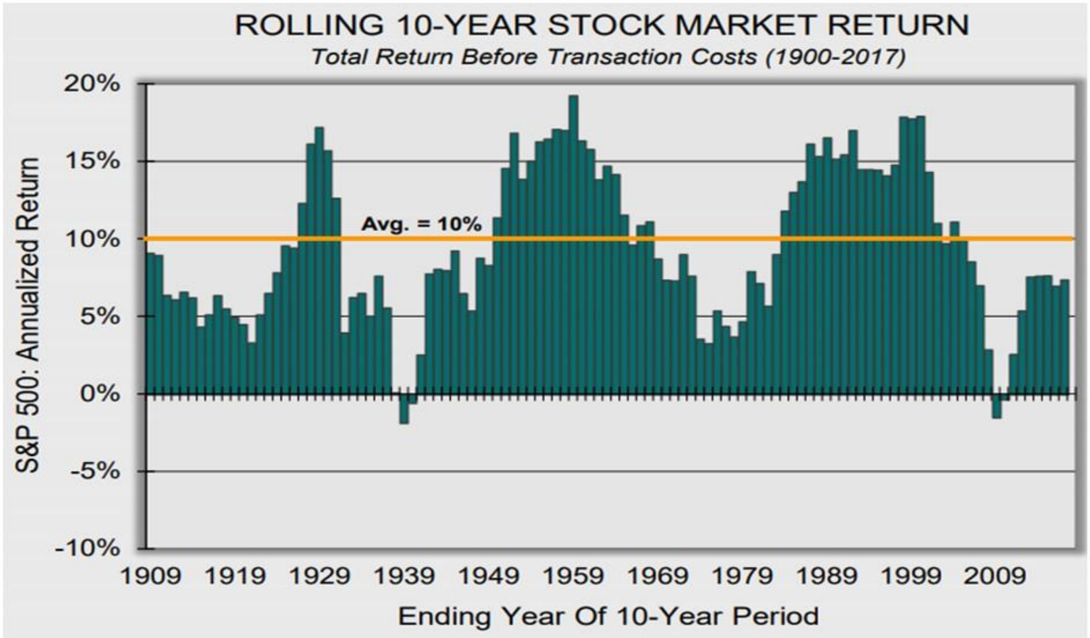
Outside of short-duration fixed income, the other big recipient of fund flows are target date funds. A target date fund aims to match an investor's age/risk tolerance and expected investment time horizon with a portfolio that shifts its balance of equities and fixed income proportionally over time. A target date portfolio will systematically reduce risk by reducing exposure to stocks in favor of bonds based on the date you choose. This is like putting your ship on cruise control with no sonar and no warning system. Imagine a storm coming on the horizon, and not taking any action to miss it. Imagine missing a secular bull market and failing to build your wealth just because you are a little older. **There is more to investing than your age**. Financial markets and your life are dynamic. Do you really want to leave your retirement to a pre-programmed robot? Do you want to allocate money to stocks and fixed income without consideration of rising interest rates and other important risk factors?

Target date funds offer retirement benefit managers an easy to implement retirement solution to a broad set of investors, many of whom have a very limited understanding of the financial markets. Not surprisingly, many target date funds deliver surprisingly poor performance.

Scars from the Last Bear Market

Since WWII, the stock market has dropped over 50% three times – twice in the past 18 years. These +50% drops felt like wipeouts and have left lasting scars. Today, 55% of Americans own stock vs. 65% in 2007 (Gallup). 31% of people between the age of 18-29 owned stocks between 2009-2017 vs. 42% from 2001-2008. 22% of millennials investing after 2008 have chosen **no equities at all** versus 10% before 2008 (Vanguard).

Shown below are the rolling annualized 10-year returns of the S&P 500. For the past 109 years, there have only been two times when the annualized 10-year return of the S&P 500 was negative (1930s Depression and 2008-09 Recession). Otherwise, in all other years, the average annual return on a rolling 10-year basis is about 10%.



Source: Crestmont Research

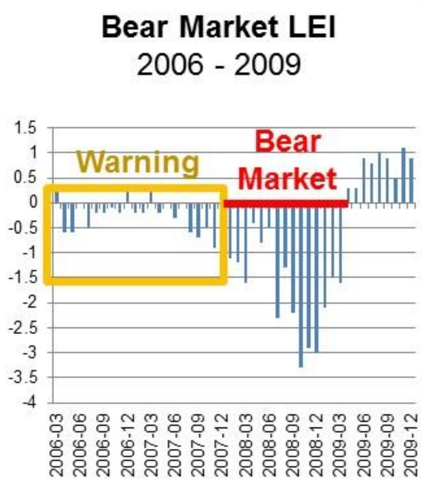
On a rolling-ten year average basis, returns have been positive 96% of the time. Between the Great Depression and the 2008 recession, there were 68 years of consecutive positive rolling-ten year average returns. The chart above helps put concerns about the length of the current bull market in perspective.

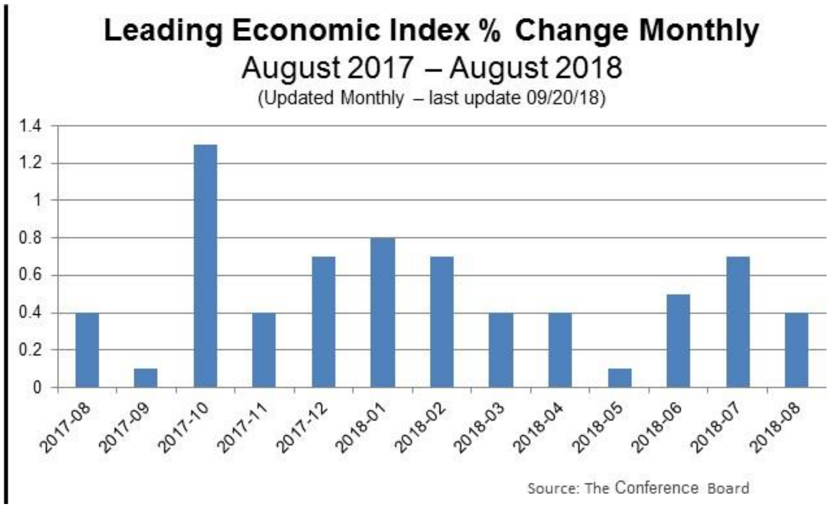
Looking for help managing your investment portfolio?

Give us a call at **(415) 249-6337** or email us at info@deltaim.com to set up a time to talk if you have questions about how we can assist you in managing your investment accounts. Our disciplined approach to invest in the strongest areas of the market and a focus on capital preservation is how we help clients.

"Your mother called to remind you to diversify."

Delta Stock Market Dashboard





MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

56.9

Our technical indicator increased this week from 56.1% to 56.9%

INDICATOR STATISTICS

Consecutive Bullish Weeks:	20
Cycle Inception Date:	5/10/2018
Range:	51.2 – 69.9
Mean:	62.1
Bullish Weeks YTD:	32
Bearish Weeks YTD:	6
*S&P 500	7.5%
*DJIA	7.7%
*NASDAQ	8.3%

** Percentage change during current cycle*

(Delta MSI is published in ***Barron's***)

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