Third Quarter 2011 Market Review: Yields Pressured by Volatility and the Fed

September brought with it more volatility in the markets, with concerns over Europe's sovereign debt issues taking center stage. Questions remain as to how and to what extent any country or bank failure in Europe would have on the U.S. Due to the global markets' increasingly interconnectivity; it is likely that the U.S. would not be immune from any failure overseas. This is one reason for poor performance in the equity markets for the year and why investors have flocked to fixed income, putting pressure on yields (to move lower). On our shores, the Federal Reserve announced that it would administer another program to keep long-term rates down, in an attempt to stimulate borrowing, and subsequently the economy. Rates are currently at historically low levels (2.013% for the 10-Yr. Treasury as of 9/28/2011), so to what extent they can move significantly lower, or even help further stimulate the economy, is another question. The Fed's program is expected to run through June 2012 and certainly one of the Fed's hopes is to maintain rates at these low levels for a while longer. In fact, there have been no immediate concerns over inflation, which would require moving away from such a low rate policy. Unfortunately, this environment is less than favorable for investors and savers as they look for yield in safer fixed income securities.

Diversified or Diversity?
The Importance of a Focused Fund List

What is the appropriate number of funds to offer in a retirement plan? According to the Profit Sharing Council of America's 53rd Annual Survey, the average retirement plan has 18 investments. In 1995 a Columbia business professor, Sheena Lyengar, conducted a study, in which she set up one tasting booth with a wide assortment of 24 different jams and another booth with only six jams for customers to sample. She counted how many people visited each booth compared with how many people actually bought a jar of jam. Sixty percent of customers visited the booth offering 24 jams, but only 3% actually bought something. In contrast, only 40% of patrons visited the booth offering six jams, but 30% of visitors ended up buying something. Her findings are applicable to not just jams, but also anything where choice is a major consideration (like investment choices in a retirement plan). Too many options typically impacts results. Simplification, while offering enough diversity, is critical to the success of all retirement plans. If you would like to have further discussions regarding the number of appropriate investments for your retirement plan, please contact David Forshew at dforshew@ccadvisors.com.

DOL to Re-propose Rule on Definition of a Fiduciary

On September 19th the U.S. Department of Labor's Employee Benefits Security Administration (EBSA) stated it will re-propose its rule on the definition of a fiduciary. In its announcement, EBSA said a new proposal won't be issued until 2012. Consistent with the president's January executive order on regulation, the re-proposal is designed to inform judgments, ensure an open exchange of views and protect consumers while avoiding unjustified costs and burdens. When finalized, this important consumer protection initiative will safeguard workers who are saving for retirement as well as the businesses that provide retirement plans to America's working men and women. The decision to re-propose is in part a response to requests from the public, including members of Congress, that the agency allow an opportunity for more input on the rule.

“We have said all along that we will take the time to get this right to ensure that we provide the strongest possible protections to business owners and retirement savers in plans and IRAs,” said EBSA Assistant Secretary Phyllis C. Borzi. Specifically, the agency anticipates revising provisions of the rule including, but not restricted to, clarifying that fiduciary advice is limited to individualized advice directed to specific parties, responding to concerns about the application of the regulation to routine appraisals and clarifying the limits of the rule’s application to arm’s length commercial transactions, such as swap transactions.

More Participants Staying the Course Amid Recent Market Volatility

Vanguard Research recently reported that 97.5% of participants made no changes in response to the market volatility in August. Participants holding a single target-date* fund traded even less frequently – 99.6% of pure target-date fund investors did not react to the August market volatility by trading. Year-to-date, the net movement of money among traders has been generally toward fixed income investments. Even at the height of the August market volatility, there were significant gross flows toward equities. Vanguard noted that late July and early August were characterized by three distinct events: the debt ceiling debate, the downgrade of U.S. Treasury securities, and a rising number of weaker-than-expected economic indicators. Stock prices were highly volatile during the first two weeks of August. Historically, 1% of stock market trading days are associated with a change in stock prices of greater than +/–3%. During the first two weeks of August, 5 of 10 trading days were characterized by this level of volatility. On a year-to-date basis, 9% of participants have traded and only 2% of pure target-date fund holders have traded. Trading activity thus far in 2011 appears to be on par with 2009 and 2010, and down from 2008, when 16% of participants traded. (*Source: Vanguard analyzed 3.1 million unique participants holding 3.4 million accounts in more than 2,000 plans*; **The target date is the date of expected withdrawals at retirement; the fund is not guaranteed at the target date or any other time. These funds are subject to risk, including the loss of principal.*)

Communication Corner: Avoiding Common Mistakes

This month's sample participant communication memo outlines the seven biggest pitfalls employees should avoid when it comes to their retirement plan. Not contributing at all is the obvious number one mistake, among borrowing against your plan and cashing out too early. Email Sherri Attili at sattili@ccadvisors.com for copy that you can print and distribute to employees.

"Retirement Report" is published monthly by Retirement Plan Advisory Group's marketing team. This material is intended for informational purposes only and should not be construed as legal advice and is not intended to replace the advice of a qualified attorney, tax adviser, investment professional or insurance agent. (c) 2011. Retirement Plan Advisory Group. All rights reserved.
111003 RPAG 2011-83