faith . discipline . patience

All-in-one investment funds are convenient but may not always the best way to invest.

All-in-one funds have become increasingly popular over the last decade in part due to more retirement plans offering these funds. The funds may have a specific year in their name to reflect the expected retirement of the investor.

The longer until retirement the more of the fund will typically be invested in stocks while those geared towards retirement sooner will lean more towards bonds and other investments expected to offer more stability.

This follows the concept of older investors having less time to recover from a large stock market drop, and possibly also having less tolerance for such drops in their investments.

This is all well and good but such funds may not be ideal as a sole investment for investors who are in the withdrawal stage of their investment life.

Let's say you're retired and plan on drawing a certain amount from your investments each year. An all-in-one fund may place half in stocks and half in mostly fixed income investments. If you draw from the account you'd be selling half stocks and half from the rest.

But what if the stock market suddenly dishes out one of its sudden and large drops? For sake of illustration imagine that this drop brings the balance within the fund to forty percent stocks and sixty percent of the more stable stuff.

If you take draw from the fund now forty percent of the withdrawal would come from selling stocks at what may turn out to be a temporarily very low level.

If the stock market then bounces back, which it typically does, forty percent of that withdrawal would not participate in the recovery.

You basically sold low which is exactly what we seek to avoid.

Imagine instead you had half your money in a stock fund, and the other half in a bond fund. Now, when the stock fund drops due to a market drop you are able to draw the next withdrawal from the bond fund only and leave the stock fund so it can hopefully recover.

Alternatively, you could use the all-in-one fund as your primary investment vehicle but also hold a chunk in e.g. a money market fund which you'd expect to hold up well if the stock market tanks. Again, during a stock market drop you could then take the next withdrawal entirely from the money market fund and leave the stock fund alone.

Basically, you've created a buffer to help reduce the chance you'll have to sell stocks while they're low.

But what should your stock-bond balance be? Well, that depends on your specific withdrawal plans and your risk tolerance. If you're not willing and ready to figure this out on your own you may want to consider seeking the advice of a financial advisor or planner.

Good luck.

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Stocks are subject to market risk which means their value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Investments in equity securities are generally more volatile than other types of investments.

Past performance is not a guarantee of future results.

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