FROM YOUR ADVISOR

TARGETING YOUR FUNDS

Target-date mutual funds aim to deliver on specific objectives, such as funding your retirement or your child's registered education savings plan

For investors who don't have the time or interest to manage their retirement savings, target-date mutual funds might be a solution worth considering.

"You're busy doing your day-to-day job, so what we do here is manage an appropriate amount of risk to achieve a goal of return for 65 years," says Peter Walsh, senior vice president and institutional portfolio manager with Fidelity Investments Asset Management, a unit of Boston-based FMR LLC.

Target-date mutual funds are used when you're saving for a specific time-based objective, such as retirement or returns in your child's registered education savings plan.

These mutual funds gradually decrease the proportion of stocks and increase their holdings of fixed-income and short-term investments as the target date approaches. Funds with target dates that are decades in the future take an aggressive stance by investing a high proportion of their assets in stocks, while funds having closer target dates are far more conservative.

This strategy compares with that of a balanced mutual fund, which typically has 60% of its assets invested in stocks and 40% invested in bonds and doesn't change much from that mix, regardless of your individual needs.

Another advantage of target-date mutual funds is that the portfolio manager constantly rebalances your portfolio to ensure an appropriate asset mix, Walsh says. "Even though we all think we are investment-savvy, we all tend to make the wrong decisions at the right time," he says. "As people work in their full-time jobs, they don't have enough time to do a simple task such as rebalancing."

Nevertheless, as you approach your retirement, you still need to be sure that the asset mix in your target-date fund remains appropriate for your individual financial plan, says Larry Moser, vice president of InvestorLine adviceDirect, an online service offered by Toronto-based Bank of Montreal.

"[Target-date funds] have to be looked at as something you invest in for the time being," he says, "and if your own circumstances change and something is not right with your investment, you always have to go back and revisit it."

Target-date funds aren't for everyone, Moser says, adding that they're "less appropriate for someone who wants a say in how their money is being managed; someone who really does understand the marketplace and feels a little bit more comfortable building his or her portfolio."

Instead, he notes, you could build your own portfolio tailored to your risk tolerance and rebalance that portfolio periodically, depending on its performance and how close you are to your planned retirement or investment goal.

But doing that requires you to be willing to make investment decisions and commit time to updating your plan regularly.

The portfolio manager constantly rebalances your portfolio into an appropriate asset mix

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