

Checking Up on Our Retirement Saver Portfolios

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My Retirement Saver portfolios are designed for investors with a long runway to-- and through--retirement. Even the Conservative versions, which are designed for investors who are five years or so away from retirement, have upward of half of their portfolios in stocks, and the Aggressive and Moderate versions have more equities still. The basic thesis is that longer time horizons and higher risk capacities call for more aggressive positioning. And let's face it, the returns on safe asset classes like cash and bonds are likely to be pretty underwhelming over the next decade.

Despite the portfolios' long time horizons, I think it's worthwhile to periodically check in on their performance and positioning. Last week I reviewed my bucket portfolios--mutual fund and exchange-traded fund portfolios geared toward investors who are already retired.

This week I'll review my mutual fund and ETF "Saver" portfolios, geared toward investors who are still in accumulation mode. As I did with the bucket portfolios, I compared the Saver portfolios' performance with that of a blended benchmark composed of low-cost, plain-vanilla broad market index funds. I used Vanguard Total Stock Market Index for equities, Vanguard Total International Stock Market Index for international equities, and Vanguard Total Bond Market for bonds. (I used Admiral share classes to benchmark the mutual fund portfolios and ETFs for

the ETF portfolios.) For the commodities slice, I used Powershares DB Commodity Tracking DBC.

The idea behind such a benchmarking process--and I recommend it for all investors--is to gauge security selection acumen and take stock of any active bets that the portfolios are taking.

Aggressive Retirement Saver Portfolio (Mutual Funds)

20%: Primecap Odyssey Growth (POGRX)

20%: Oakmark Fund (OAKMX)

15%: Vanguard Extended Market Index (VEXAX)

30%: Vanguard Total International Stock Index (VTIAX)

7%: T. Rowe Price International Discovery (PRIDX)

3%: Metropolitan West Total Return (MWTRX)

5%: Harbor Commodity Real Return (HACMX)

2016 Total Return: 10.04%

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Bucket Portfolios for Retirement Income: Step by Step

Morningstar's Christine Benz walks investors through the basics of setting up and maintaining a 'bucket' retirement portfolio, including some of her favorite funds for retirees.

2016 Blended Benchmark Return: 9.70%

Portfolio Changes: None.

This portfolio is geared toward aggressive, beginning investors--those who expect to retire roughly 40 years from now. Thanks to strong performance from its U.S. equity holdings, the Aggressive Retirement Saver mutual fund portfolio posted a (barely) double-digit gain and bested its blended benchmark of index funds. The portfolio's standout performer was Oakmark Fund, which landed in the large-blend group's top 1% for the year, thanks to a surge in financials and energy stocks following the election. Vanguard Extended Market Index, which focuses on the small- and mid-cap stocks not found in the S&P 500, also surfed a wave of strong performance in smaller-cap names. Those two winning positions helped offset a weak showing from Primecap Odyssey Growth; while its returns looked stellar relative to its large-growth peers, large growth stocks lost ground to more cyclically oriented fare in the year's fourth quarter. On the international front, the portfolio's stake in T. Rowe Price International Discovery detracted from results. While its 2016 results looked just fine alongside its foreign small-/mid-growth counterparts, that category has been one of the worst-performing international equity groups over the past year.

Moderate Retirement Saver Portfolio (Mutual Funds)

15%: Primecap Odyssey Growth

15%: Vanguard Dividend Appreciation (VDADX)

15%: Oakmark Fund

10%: Vanguard Extended Market Index

21%: Vanguard Total International Stock Index

5%: T. Rowe Price International Discovery

14%: Metropolitan West Total Return

5%: Harbor Commodity Real Return

2016 Total Return: 8.99%

2016 Blended Benchmark Return: 9.47%

Portfolio Changes: Replaced Vanguard Dividend Growth (VDIGX), which closed, with Vanguard Dividend Appreciation.

This portfolio is geared toward a slightly older investor than the Aggressive portfolio--someone who intends to retire in about 20 years. Although its positions are quite similar to those of the Aggressive portfolio, the Moderate portfolio lagged its blended benchmark of index funds in 2016. Vanguard Dividend Growth, which we replaced with Vanguard Dividend Appreciation when the former closed, watered down strong performance from U.S. equity holdings like Oakmark and Vanguard Extended Market. T. Rowe Price International Discovery, while a small position, also dragged on returns relative to the all-index portfolio. Moreover, Metropolitan West Total Return, which is a larger position for the Moderate portfolio than the Aggressive one, had an underwhelming showing last year, lagging the Barclays Aggregate index as well as its intermediate-term bond category peers.

Conservative Retirement Saver Portfolio (Mutual Funds)

10%: Primecap Odyssey Growth

10%: Vanguard Dividend Appreciation

10%: Oakmark Fund

7%: Vanguard Extended Market Index

10%: Vanguard Total International Stock Index

4%: T. Rowe Price International Discovery

30%: Metropolitan West Total Return

7%: Fidelity Short-Term Bond (FSHBX)

7%: Vanguard Inflation-Protected Securities (VAIPX)

5%: Harbor Commodity Real Return

2016 Total Return: 7.02%

2016 Blended Benchmark Return: 7.41%

Portfolio Changes: Replaced Vanguard Dividend Growth, which closed, with Vanguard Dividend Appreciation.

This portfolio is geared toward investors with retirement on the horizon. While it features ample equity exposure, it also has an enlarged--and more nuanced--bond position than the Aggressive and Moderate portfolios. Not only is Metropolitan West Total Return Bond 30% of the portfolio, but it also includes allocations to short-term bonds and Treasury Inflation-Protected Securities. As noted above, the Met West fund didn't distinguish itself relative to the Barclays Aggregate Index or its peers last year. But its muted returns stemmed largely from its conservative positioning, defensible at this late stage of bonds' long-running rally; the fund earns a Gold rating from Morningstar's analysts. Nor did our conservative short-term holding, Fidelity Short-Term Bond, help on the fixed-income front. That said, I still think it's important for pre-retirees to start lining up more liquid assets--if not outright cash--in anticipation of beginning to spend from their portfolios. Vanguard Inflation-Protected Securities pitched in strong gains as TIPS rallied in the wake of the election and heightened inflation expectations.

Aggressive Retirement Saver Portfolio (ETFs)

50%: Vanguard Total Stock Market ETF (VTI)

10%: Vanguard Small-Cap Value ETF (VBR)

30%: Vanguard FTSE Developed Markets ETF (VEA)

5%: Vanguard FTSE Emerging Markets ETF (VWO)

5%: WisdomTree Continuous Commodity ETF (GCC)

2016 Total Return: 10.54%

2016 Blended Benchmark Return: 10.34%

Portfolio Changes: None.

This portfolio, like its mutual fund counterpart, is geared toward beginning investors who have a healthy tolerance--and capacity--for risk. As such, it holds 90% of its assets in equity ETFs, including a healthy dollop of foreign stocks. Thanks to its position in a small-cap value ETF, whose namesake stocks rallied in the wake of the U.S. election, it edged passed its plain-vanilla benchmark last year. A small position in an emerging-markets ETF also contributed to last year's relative and absolute results, as emerging markets performed much better than developed in 2016.

Moderate Retirement Saver Portfolio (ETFs)

47%: Vanguard Total Stock Market ETF

8%: Vanguard Small-Cap Value ETF

20%: Vanguard FTSE Developed Markets ETF

5%: Vanguard FTSE Emerging Markets ETF

5%: WisdomTree Continuous Commodity ETF

15%: Vanguard Total Bond Market ETF (BND)

2016 Total Return: 9.76%

2016 Blended Benchmark Return: 9.59%

Portfolio Changes: None.

The Moderate portfolio is geared toward 40-somethings with approximately 20 years until retirement. Because that's still a very long time horizon--and because the returns on "safer" asset classes like cash and bonds are apt to be so muted over the next decade--it includes an aggressive, 80% equity stake. As with the Aggressive ETF portfolio, this portfolio's noncore equity positions--small-cap value stocks and emerging markets equities, in particular--helped boost returns above the blended benchmark last year.

Conservative Retirement Saver Portfolio (ETFs)

33%: Vanguard Total Stock Market ETF

5%: Vanguard Small-Cap Value ETF

10%: Vanguard FTSE Developed Markets ETF

4%: Vanguard FTSE Emerging Markets ETF

4%: WisdomTree Continuous Commodity ETF

30%: Vanguard Total Bond Market ETF

7%: Vanguard Short-Term Inflation-Protected Securities ETF (VTIP)

7%: Vanguard Short-Term Bond ETF (BSV)

2016 Total Return: 7.43%

2016 Blended Benchmark Return: 7.42%

Portfolio Changes: None.

The Conservative ETF portfolio is designed for investors who are closing in on retirement. While it doesn't yet make room for cash--in contrast with my in-retirement "bucket" portfolios--it does include an enlarged, and better-diversified, bond position relative to the Aggressive and Moderate portfolios. For 2016, its returns stayed neck and neck with its plain-vanilla benchmark. While its U.S. and foreign equity sleeves outperformed a total U.S. stock market index and international stock market index, respectively, the presence of short-term bonds detracted a bit from results, even as a small TIPS position boosted them.

Christine Benz does not own shares in any of the securities mentioned above. Find out about Morningstar's [editorial policies](#).

