



## Letter to the Editor: Zvi Bodie's Retirement Solution

February 24, 2009

*The following letter is in response to our article, [Zvi Bodie on the Future of Retirement Products](#), which appeared last week.*

I agree with Zvi Bodie that target date funds are flawed, but disagree with his solution because it is limited to the rich. There is an alternative solution developed by my firm, Target Date Analytics(TDA), that is designed for everyone, because it: (1) preserves the purchasing power of total contributions (we are with Bodie so far); and (2) grows all (not just extra) assets as much as possible without jeopardizing the primary preservation objective. TDA has developed indexes that are designed to achieve these objectives.

What's the difference? Here's what you say about Bodie's recommendation: "Once an investor has secured their standard of living, through a combination of Social Security and TIPS, it may be time to put some money in the stock market. Bodie's vehicle of choice is the Equity Participation Note (EPN)." [My emphasis] In other words, the Bodie plan is designed for investors who have secured their standard of living, who most would consider rich.

The Bodie glide path is all TIPS until and if sufficient assets are saved, at which time some assets are invested in EPNs. By contrast, the TDA glide path is all broadly diversified risky assets until the horizon is short enough to have a risk of loss, at about 20 years. Then the TDA glide path moves fairly quickly to protect by investing more and more in TIPS through time until it is entirely in TIPS at the target date. The two glide paths are somewhat the opposite of one another because one operates on a wealth catalyst and the other on a preservation catalyst. Importantly, both glide paths emphasize purchasing power protection, but differ in their stretch for capital appreciation.

Investment solutions for the rich are easy and well-documented, although I agree with Bodie that few advisors recommend them to their wealthy clients. As a general matter, the rich can dedicate some portion of their assets to their needs and desires by buying TIPS that mature on the dates that these monies are intended to be spent. (Bill Sharpe calls these "Lock boxes.") Then the rich can do whatever they like with the rest, including buying EPNs.



The problem is that the rich need financial engineers (no fun) rather than financial advisors (to remember their birthdays). Nonetheless, these financially engineered solutions apply across the board to both qualified and non-qualified assets, although here again the rich can afford to employ asset locators to garner favorable tax treatments.

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