



Letters to the Editor

October 19, 2010

The following letters are in response to our article, [The Misguided Promise of 529 Plans](#), which appeared on October 5.

Dear Editor,

This was a good article pointing out that most of the 529 portfolios people choose are riskier than they probably understand for the given investment horizon. Also, it is worth remembering that even some bond companies (notably Oppenheimer) in 529s loaded up on lower quality corporates and got clobbered in 2008.

However, I don't agree with the conclusion that 529s should be avoided. Many 529s allow custom portfolios using well managed bond funds like the PIMCO Total Return fund, making them a good, relatively safe, tax-free investment for college. And there are age-based portfolios that are very conservatively managed (see Utah's option 9, for example). Remember also that munis are not without risk these days as compared to pre-2009.

Bottom line: there are conservatively managed 529s that I'm comfortable recommending to clients. If one wanted to be more conservative, one could use a combination of 529s and bond ladders (muni or otherwise, depending on the client's tax situation). But the tax-free accumulation in 529s is still a benefit that's hard to pass up.

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Dear Editor,

Plenty of 529 plan choices are invested in a minimal amount of stocks, especially for beneficiaries in the middle school-age brackets and older. The cause of poor performance is either investors making the asset allocation decisions themselves and being too aggressive or taking advice from over-aggressive advisors. The author is correct regarding the high equity allocations over a short investment horizon, but most conservative age-based options will have a reasonable stock percentage.

A 1/3 stock, 2/3 bond allocation is a more appropriate allocation than your recommendation of 100% munis, given current tax treatment of 529 plans. Time will tell if history repeats itself regarding muni bonds. Many are predicting that 2011 will be the most challenging year ever for munis, as federal assistance for states will drop significantly and tax rolls still aren't growing.

I enjoy and respect the information provided in many of your articles, but this wasn't one of them.

My biggest gripe with 529 plans is that advisors can sell them with front-end loads of up to 4.75%. Now that's a deterrent to good performance given the short time horizon! This product should be a loss leader for an advisor (i.e. a freebie), not one that carries absurdly high commissions.

Nothing is more important than education.

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