

# Every Ship Needs a Rudder

BROUGHT TO YOU BY NEW YORK LIFE STABLE VALUE INVESTMENTS



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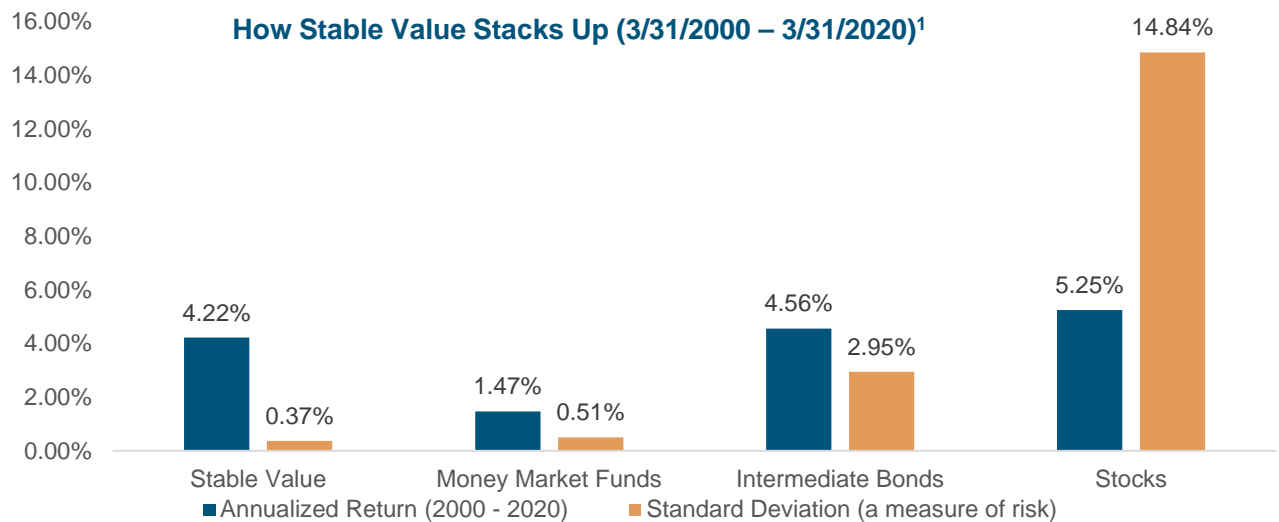
As retirement investors navigate both stock and bond based investment options within their employer sponsored retirement plans, the investing seas can be rough. In fact, over the past few decades, stock and bond markets have been experiencing prolonged periods of volatility and interest rates have been falling to historic lows. Many employer sponsored retirement plan investors view this to be the new normal. For stock markets, volatility could be the new normal for an investment in stock funds. So how about bond markets and investing in bond funds? Interest rates are now at historic lows and the prospect of rising rates may certainly complicate investing in both bonds and bond funds—which are typically a conservative and lower risk investment option relative to stock funds. Regardless of an investor’s age, how should one think about allocating their retirement plan funds and should a stable value fund be considered as a component to their investment plan? While the markets have slightly calmed, and provided some flat water here, let us take a step back and check the compass on the retirement plan journey.

Right about the time stable value funds were created some 40 years ago, selecting a capital preservation option often meant using money market mutual funds and FDIC insured bank certificates of deposit (CDs). Bank CDs have limitations on liquidity under certain scenarios and money market funds generally offer principal protection, modest yields and daily liquidity. Things were simple because plan advisors were familiar with government, prime and municipal money market funds that are widely available outside of retirement accounts. Today, there are more choices, including stable value funds, which offer both protection and liquidity for participants. Stable value funds generally offer higher yields over time than money market funds because they can invest in assets with longer durations.<sup>1</sup> In addition, the insurance protections are designed to provide price stability on a day-to-day basis. Should there be an extreme event, there are insurance guarantees that participants won’t lose at least what they have invested – in most circumstances. However, Plan advisors are often less familiar with stable value funds, whose structures and features can vary depending on the insurance contract issuer. In short, when selecting and monitoring capital preservation plan options, consider what you’re trading-off for higher yields.

First, by definition stable value funds are certainly in the bond or fixed income based fund “family”, but they are different. Generally speaking, the primary objective of a stable value fund is to return the capital or principal invested; and second to provide a competitive rate of return. Now, just like all bond funds, the value of the individual bonds that support stable value funds drops when interest rates rise. However, unlike standard bond funds—and specifically due to smoothing rate reset mechanisms available only to qualified plan investors—stable value fund crediting rates seek to provide a consistently positive rate of return which has a stabilizing effect to overall retirement plan balances. Whether investing in a stable value fund is a diversification tool, or a rudder for volatile equity funds—it allows an investor to stay the course.



The chart below compares the average historical returns and corresponding risk of four types of investments as measured by the indices defined on the following page: stable value funds, money market funds, intermediate bond funds and stock funds. Over a 20-year period, an investment in stock funds yielded the highest average annual return, but this high return is accompanied by the highest risk, as measured by standard deviation. On the other side of the spectrum is money market funds; they provided the lowest return, along with relatively low risk. Intermediate bond funds yielded over triple the return of money market funds but with more than five times the risk. Stable value funds provided a return close to intermediate bond funds, but with nearly eight times less risk. In essence, over the long term, compared to the other options, stable value funds have provided competitive returns with very low risk.



Source: Stable Value Investment Association. *Past performance is not a guarantee of future results.*

Stable value funds have historically provided stabilizing effects since they were created over 40 years ago. Looking at a couple of recent infamous financial market events—the Great Recession 2007-2009 and the dot.com crash 2000 — stable value funds consistently delivered competitive returns with relatively low volatility.<sup>2</sup> As for other retirement plan fixed income investment options, such as money market funds and intermediate bond funds, they have not been able to consistently protect principal and deliver returns, above inflation, the way stable value funds can.

In the world of qualified retirement plan investing, stable value is like nothing else that is offered in plan investment options. It has real insurance which often times includes a guarantee of principal and interest. It works in retirement plans because of the insurance, the “law of large numbers” of investors, and built-in controls that are designed to protect the investments of plan participants. It’s the strong rudder you put your trust in when at sea.

As participants think about allocating their portfolios and steering towards a safe port in any phase of their retirement investment planning, stable value merits strong consideration.

Retiremently speaking, may your investment portfolios bring you fair winds and following seas!

1. "Stable Value" is a simulation of book value returns in a hypothetical fund holding intermediate bonds and stable value wrap contracts, with crediting interest rates reset monthly using the industry accepted crediting rate formula. The bond returns incorporated into the simulation are monthly market value returns from the Barclays Intermediate Government/Credit Bond Index, with gains/losses reflected in future crediting rates by amortizing market-vs.-book values over intermediate bond index durations. This simulation incorporates no ongoing cash flows into or out of the fund. Returns illustrated are gross before any fees and are annualized. "Money Market Funds" is a simulation of money market returns from the iMoneyNet MFR Money Funds Index. Returns illustrated are gross before any fees and are annualized. "Intermediate Bonds" is a simulation of market value bond fund returns from the Barclays Intermediate Government/Credit Bond Index.

Returns illustrated are gross before any fees and are annualized. "Stocks" is the S&P 500 Index with dividends reinvested: a widely used barometer of U.S. stock market performance; as a market-weighted index of leading companies in leading industries, it is dominated by large-capitalization companies. Returns illustrated are gross before any fees and are annualized.

The performance data shown represents past performance, which is not a guarantee of future results. Current performance may be lower or higher than the performance data cited. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index. For the 20-year period ending March 31, 2021 stable value simulated returns averaged a gross return of 4.22% with a standard deviation, which is a measure of risk, of 0.37%. For money market funds, the average total return was 1.47% with a standard deviation of 0.51%; for intermediate-term bonds, 4.56% and 2.95%; and for stocks, 5.25% and 14.84%.

2. Source: SVIA "Stable Value – An Investment Solution Worth Knowing: Supplemental Data". [www.stablevalue.org/wp-content/uploads/Stable-Value-Supplemental-Data.pdf](http://www.stablevalue.org/wp-content/uploads/Stable-Value-Supplemental-Data.pdf).

#### Index Definitions:

iMoneyNet monthly money market returns are converted from 30 day returns to exact days before being used in monthly returns, as a result, an actual month's iMoneyNet return used in these calculations may vary slightly from posted iMoneyNet index publications for months with more or fewer days than 30.

The Barclays U.S. Intermediate Government/Credit Bond Index measures the performance of U.S. dollar denominated U.S. treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years.

The S&P 500 Index is widely regarded as the standard for measuring large-cap U.S. stock-market performance.

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