PLUGGING INTO PLANNING TOOLS SPONSORED BY MUTUAL FUND FAMILIES

By John Markese

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If you are not already connected to the Internet, plug in.

For mutual fund investors, the Web has much of value to offer that is difficult to find or duplicate in hard-copy sources; asset allocation/investment planning stands out. The asset allocation decision—how much you put into categories of investments—is likely to dominate your portfolio's degree of success in the long term. So it's not a bad idea to get a second, third, or even fourth opinion. And when the opinions are readily available and free, why not?

The fund families of Fidelity, T. Rowe Price, Strong, and Vanguard offer extensive planning functions on their Web sites that walk investors through a questionnaire, then to an asset allocation based upon the responses to the questionnaire, and finally to funds from their families that fit into the asset allocation categories. Some of the fund sites offer one unique set of funds to fulfill the asset allocation derived from questionnaire responses, others offer groupings of funds, and one offers a choice of two approaches with fund selections to match. (See the accompanying box for the location of each fund family's planning tool.)

The questionnaires for each site, while different in structure and approach, all target the same asset allocation issues: investment goals, investment horizon, risk tolerance, and personal financial profile. Investment goal questions usually converge around choices of retirement, college tuition/expenses or a major purchase. These choices usually fall, as ordered, from farthest in the future to nearest, which influences the degree of risk inherent in the final suggested allocation.

Similarly, investment horizon questions take aim at the same issue, only head-on. However, there is no precise definition of how long is long-term or how short is short-term. Less than four years seems to be common on the short end, and 11 years or longer on the long end, but less than two and more than 16 are also offered as horizon breakpoints. The longer the horizon, the more likely that a portfolio can weather short-term volatility.

Probably the most creatively diverse section of the questionnaires deals with attitudes and sensitivity relative to risk. A popular approach to getting in touch with your own true risk is to conjure up a sudden loss in your investments or a significant correction in the market and ask your response: Would you sell all, sell some, do nothing, buy more? Clearly, the do-nothing to buy-more responses indicate greater risk tolerance. Some questionnaires try to measure your risk/return trade-off with investment choices carrying different dollar upsides and downsides—the higher upside choice paired with a greater risk of loss—by asking your preference. Still other questions simply ask you what level of risk you can tolerate and define low risk, moderate risk and high risk by how much loss you can withstand in your portfolio without breaking your long-term plan.

Questions that are directed at identifying a personal financial profile usually pivot around income and investment background. Do you have an emergency fund? How much of your income is devoted to paying off debt? How stable are your income sources? How do you expect your income to grow relative to inflation? All are questions we should ask ourselves in some form to help in determining an appropriate asset allocation. The more stable the income, the less devoted to paying off debt, and the greater the income growth relative to inflation, the more aggressive the asset allocation can be.

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As for investment background, questions probe for experience with a variety of investments and also general investment knowledge about how investments are likely to behave in different market conditions. The assumption underlying your response to investment background questions is that the more you know and the more experienced you are, the more aggressive your asset allocation can be.

The asset allocations that pop out from these questionnaires are totally dependent on your answers. And even if you have answered these questions to the best of your ability, remember that the questions require you to forecast your future needs and situation. They ask you to respond to hypothetical situations, and seemingly unimportant word choices, phrasing, and question sequencing will influence your answers and therefore the suggested asset allocation. Answer the questionnaire more than once, changing answers to questions you are not certain of and see if the asset allocation changes. And consider whatever asset allocation is proposed as a suggestion or framework, not a rigid answer or sole answer.

Table 1 details the asset allocations and investment category results of taking the questionnaire on the four mutual fund family Web sites. Since the questionnaires were distinctly different, the problem of consistency and likeness of response was addressed by responding to all questions as consistently as possible. Since it is easier to be consistent at the extremes, aggressive responses were made: long-term horizons, highly risk tolerant, experienced and knowledgeable investor, no need for current income, etc. Still, differences among the four fund families' asset allocations must in some part be attributed to different questions and scoring systems.

The aggressive component of the fund families' recommended portfolios is primarily in their asset allocations, rather than in the individual fund suggestions. All have high allocations to stock funds, with two families suggesting an allocation of 100% to stock funds and two suggesting only relatively small fixed-income fund investments—15% at

TABLE 1. COMPARING RECOMMENDATIONS FOR AN AGGRESSIVE INVESTOR

Fund Family	Suggested Asset Allocation	Fund Investment Categories	Notes
Fidelity	85% stock funds	50% large-cap stock 20% mid- & small-cap stock 15% international stock *or* 100% asset allocation fund	Makes no special fund recommendations other than listing funds that fall in each category, but suggests that the large-cap category contain: all large-cap blend funds (growth/value) or equal amounts in large-cap growth and large-cap value, or some assets in large-cap blend and the remaining in equal portions of large-cap growth and large-cap value funds.
	15% bond funds	10% corporate bond 5% high-yield corporate bond *or* 15% municipal (non tax-shelters)	
T.Rowe Price	100% stock funds	50% large-cap stock 20% mid-cap stock 10% small-cap stock 20% international stock	Suggests dividing large-cap assets equally between the Equity Income Fund (value) and the Blue-Chip Growth Fund (growth/value), and dividing the mid-cap assets equally between the Mid-Cap Value Fund (value) and the Mid-Cap Growth Fund (growth).
Strong	90% stock funds	60% large-cap stock 30% mid- & small-cap stock	Suggests dividing the large-cap assets equally between the Strong Growth and Income Fund (growth/value) and the Strong Total Return Fund (value) and placing all of the mid- and small-cap stock assets in the Strong Growth Fund (growth).
	5% bond funds	5% corporate bonds	
	5% money market funds	5% money market	
Vanguard	100% stock funds	80% total stock index 20% total international stock index *or* 27% total stock index 20% total international stock index 28% large-cap stock 15% mid-cap stock index 10% asset allocation	Suggests either a total index approach or an index/active blend. The actively managed funds are in the large-cap stock category and include 16% in Windsor II Fund (value) and 12% in U.S. Growth Fund (growth).

the most, in the case of Fidelity.

Each of the fund families suggests the largest portfolio component be in large-cap funds that are mostly either growth/value approach blends or value funds, conservative choices. All also recommend positions in mid-cap and small-cap funds, a few of which are growth funds, but even in this category growth/value blends and value funds predominate—again relatively conservative selections.

Only the Strong family's planning program doesn't suggest an international fund component, a surprising difference since the other three make suggestions of 15% to 20% of the portfolio in international funds. International funds add some diversification benefits and although risks such as exchange rate fluctuations are real with international investments, none of the funds suggested carry high emerging market risks.

Table 2 gives performance statistics for the suggested stock funds. In the case of Fidelity, no funds were specifically recommended other than the Asset Manager Aggressive, and this fund is too new to have meaningful numbers.

The only oddities in these performance figures are among the Strong funds. The returns on the Total Return fund, up 60.2% for 1999, and the Growth fund, up 75.0% for 1999, are way above their categories—growth & income and growth, respectively. Not surprisingly, their risk levels are also 40% to 50% greater than the category averages.

How useful are these fund family–sponsored asset allocation planning programs? They are probably most useful taken collectively, and as a check of ranges of asset mixes that might be appropriate for your risk, horizon, and investment knowledge profile. The individual fund suggestions are quite diverse when viewed fund-by-fund on a performance and risk basis, but similar when viewed solely by investment category. Vanguard's plan was the most diversified, Strong's the most concentrated—but then again, Strong had by far the highest performance.

Simply recognizing these differences and understanding the variety of different approaches to a common goal will push you much closer to finding an asset allocation/fund mix that you can ride comfortably to your financial destination. ◆

TABLE 2. FUND FAMILY PLANNING PROGRAMS: RECOMMENDED FUNDS

	Annual Total Return (%)			Category	Total
Fund Family	1 Yr.	3 Yrs.	5 Yrs.	Risk	Risk
T. Rowe Price					
Equity Income (PRFDX)	3.8	13.4	18.5	low	av
Blue Chip Growth (TRBCX)	19.9	25.4	28.2	blw av	av
Mid-Cap Value (TRMCX)	3.5	10.0	NA	low	av
Mid-Cap Growth (RPMGX)	23.7	21.3	25.7	abv av	abv av
Small-Cap Stock (OTCFX)	14.6	12.5	18.2	low	abv av
International Stock (PRITX)	34.6	17.0	15.7	blw av	av
Strong					
Growth and Income (SGRIX)	32.2	31.8	NA	blw av	av
Total Return (STRFX)	60.2	37.9	30.6	high	abv av
Growth (SGROX)	75.0	38.3	34.8	high	high
Vanguard					
Total Stock Market Index (VTSMX)	23.8	25.9	26.8	abv av	av
Total Int'l Stock Index (VGTSX)	29.9	14.2	NA	blw av	av
Windsor II (VWNFX)	(5.8)	13.2	20.1	av	av
Mid-Cap Index					
U.S. Growth (VWUSX)	22.2	29.1	30.3	av	abv av
Asset Allocation (VAAPX)	5.2	18.8	21.3	abv av	blw av

Source: AAII's The Individual Investor's Guide to Low-Load Mutual Funds, 19th Edition, 2000.

Selected Fund Families: Where to Find Financial Planning Tools

Fidelity Funds, www.fidelity.com
Click on the Site Map and under the heading Planning, click on "Investment Planning." Select step #2: "Designing an Investment Strategy," then click on the Asset Allocation Planner bar.

Strong Funds, www.strong-funds.com
Go to the Planning Center area and click on the Planning Tools bar. Choose Personal Finance from the list of tools and click on Asset Allocation.

T. Rowe Price Funds, www.troweprice.com
Select "Tools & Insights" from the list under Find Out About. Click on Online Investment Strategy Planner.

Vanguard Funds, www.vanguard.com
In the Education, Planning & Advice tab, scroll down to the Interactive Planning & Advice section and click on Vanguard Online Planner. Visitors to the site can try out the planner without registering by clicking on the planning method called "Plan Without Saving Data." Check the box next to the Planning Option called "Investment Planning" from the list of choices.