Investment Project Report: February 2012

Latest action: Invest $2000 in a "lifecycle fund."

Invested so far: $2000.00

Balance: $2000.00

Details: The choice to invest $2000 was based on the fact that the chosen fund has a minimum balance of $1000 and I don't wish to deal with whatever trouble might occur if I fall below the minimum. These minimums vary from fund to fund. In order to help new investors, some funds have a lower minimum for an investor that simultaneously signs up for an automatic investing program (for example, one can have $50 automatically transferred each month from a checking account at a bank or credit union to an investment account at a mutual fund company. At the time of this writing, $50 is the typical minimum monthly investment).

Lifecycle funds are funds that have a balance of stocks and bonds and are designed to deliver a good return at a specified date in the future (the idea is that the date is the expected date that you will need to spend the money). As time passes, the balance shifts from stocks (higher risk higher reward) and bonds (lower risk, lower rewards). Because we are investing over the long run, we chose a fund with a retirement date far in the future. The specific fund is the Vanguard Target Retirement 2060 fund. Vanguard is a company with a philosophy similar to mine that has low costs in terms of fees that they charge for handing all this money.

Commentary: Lifecycle funds are a nice idea, but they are financial products that contain what the investment house in question (Vanguard in this case) wants them to contain. Vanguard wants these to perform well and to fit with the advertised philosophy, which is good. My concern is that Vanguard (or any firm selling this stuff) might also want them to market well and may therefore be overly conservative with them so as not to scare anyone with volatility. That is, they might set up the ideal theoretical mix for retirement at 2060, but then label that mix "2040" so that fewer investors see their balance fall with the inevitable fluctuations of the market. For this reason, I chose the longest time-horizon available. Once the money is built up, we can switch it to other funds and have exactly the balance of stock funds and bond funds that we choose.