DC Solutions Series: Trend Following Strategies in Target-Date Funds

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In this issue of the *DC Solutions* series, we focus on the need for target-date funds (TDFs) to better protect against losses during equity drawdowns and to better diversify their asset allocations. We suggest incorporating trend following as a potential solution to these issues, and discuss the benefits this may have for defined contribution (DC) retirement plan participants.

- We discuss how equity risk concentration leaves TDFs highly susceptible to losses during equity drawdowns, particularly near retirement
- Trend following may help mitigate this problem, as it has historically been diversifying to the assets within a traditional TDF and has shown a valuable potential to generate positive returns during equity drawdowns
- Trend following has historically worked across a wide variety of liquid assets, and we believe it may generate better risk-adjusted returns when diversified across assets and trend horizons
- When implemented within a TDF, trend following may not only help protect wealth during equity drawdowns, but may also increase real ending retirement wealth

Trend following can help mitigate the problems caused by equity risk concentration. This may help participants achieve their retirement goals of both accumulating wealth and preserving it during difficult equity market environments.

eliminate the risk of experiencing investment losses.

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