

**Portfolio Stochastic Design Scans:
Top 5yr 401k Plans – 2004 to 2008**

Edward L. Stanton, Ph.D.
CTO Emeritus
MSC Software Corporation

“ In the end, how your investments behave is much less important than how you behave. ”

**Benjamin Graham
The Intelligent Investor**

Comparison Criteria

The Balanced portfolio for many of the 401k plans scanned since 12/31/2008 data became available have high Sharpe ratios because most of the Balanced portfolio was invested in the stable value fund if the plan had one. That means Sharpe ratio alone is not a good criteria for judging portfolio designs in Black Swan markets. Every ship needs a lifeboat but it is not a good design even for short trips.

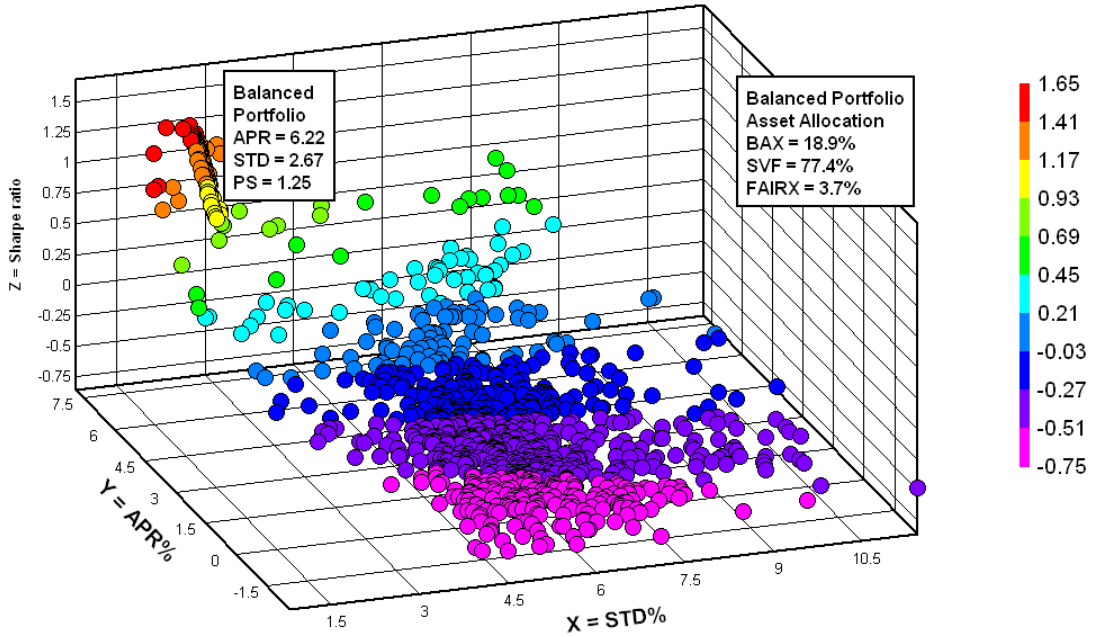
The criteria I used is heuristic but it is objective and repeatable. I ranked all the Balanced portfolios by their 5yr APR and then resorted the top 10 plans by Sharpe ratio. It is a 5yr criteria that would not be necessary were it not for 2008 being a Black Swan year. The criteria effectively eliminated lifeboat designs for 5yr retirement trips.

The Top Ten 401k Plans – Sorted by 5yr APR

<i>401k</i>	<i>APR</i>	<i>STD</i>	<i>PSR</i>	<i>rank</i>
AMT	16.08	25.54	0.56	8
S&C IRA	7.92	4.12	1.23	2
BDX	7.22	8.90	0.49	10
KR	7.20	8.08	0.54	9
MLM	7.10	6.15	0.69	5
ATR	6.98	6.46	0.64	6
CVX	6.65	4.99	0.76	4
BAC	6.42	5.79	0.61	7
GIS	6.31	3.21	1.07	3
BAX	6.22	2.67	1.25	1

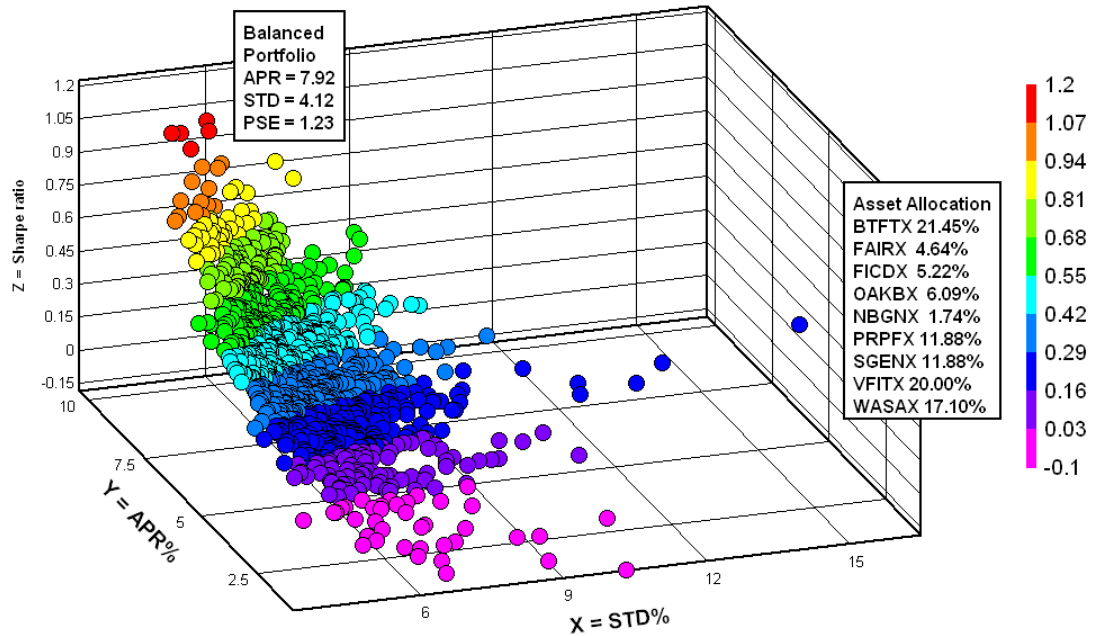
Top Ranked – Baxter International

Baxter International 401k (IIP) Plan PSDS Scan
12/31/2008 5yr Market Data

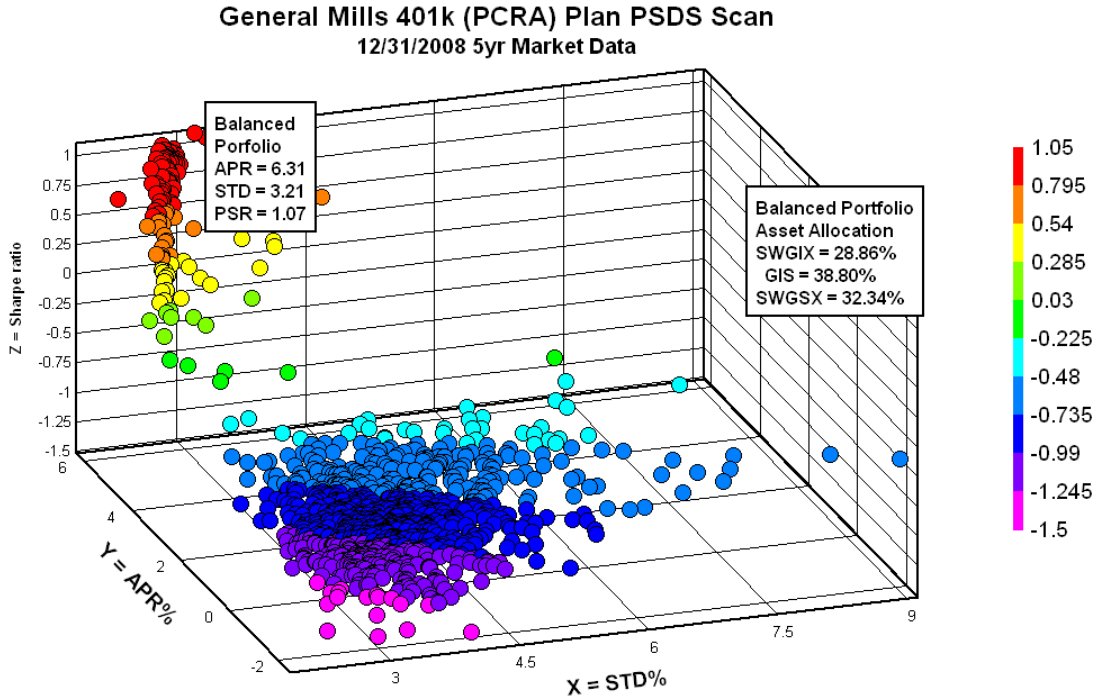


Second Place – Stanton & Castleton IRA

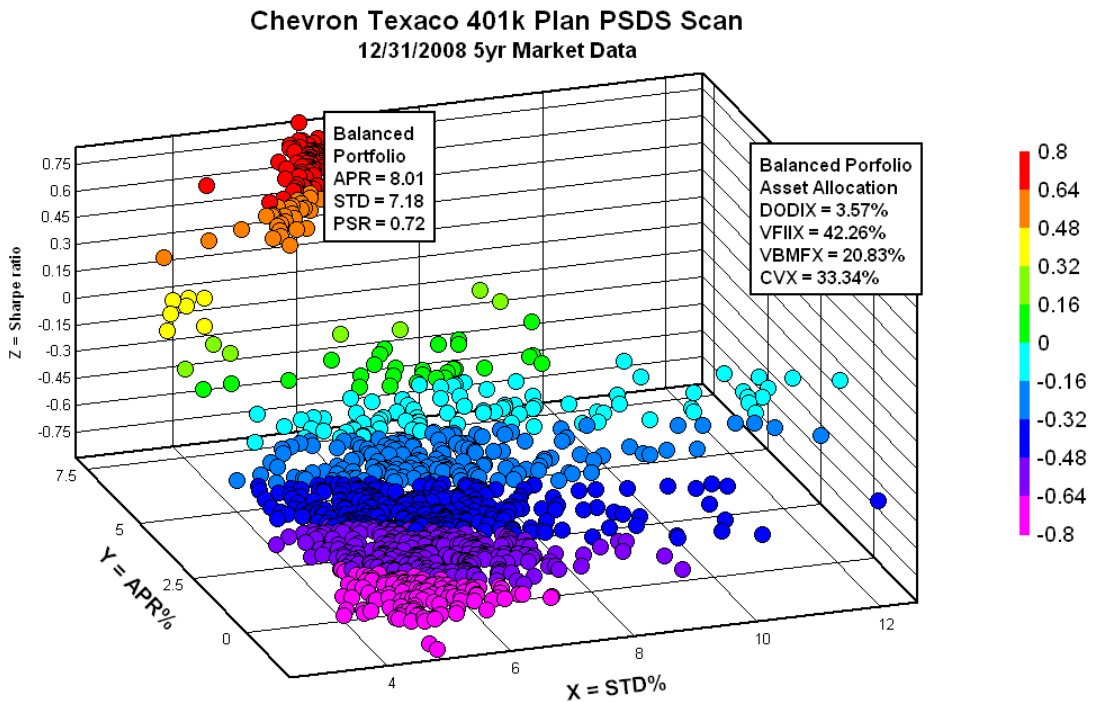
Stanton & Castleton IRA PSDS Scan
12/31/2008 Market Data



Third Place – General Mills



Fourth Place – Chevron Texaco



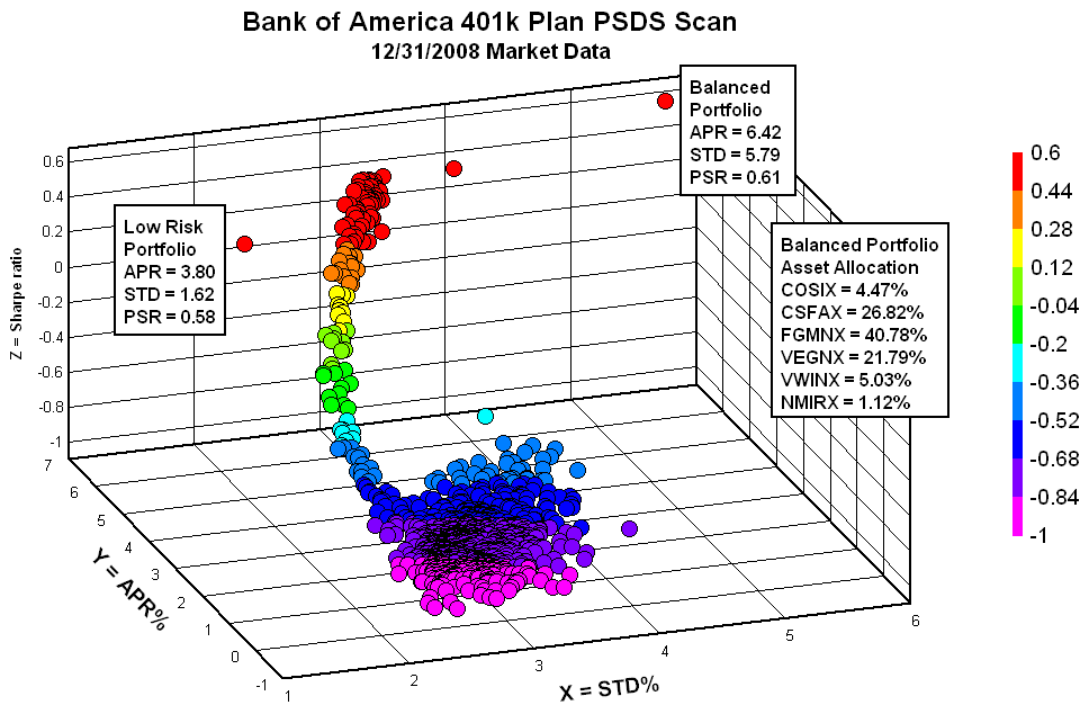
Commentary

Only one of the top 401k Balanced portfolios, Baxter International, had a stable value fund and it was the top rated Balanced portfolio. However, it made the top spot because the company stock, BAX, had a 5yr APR of 13.6% and it was 18.9% of the Balanced portfolio. This is not a well Balanced portfolio to my way of thinking. Without company stock the Balanced portfolio's 5yr APR would have been too low to make the top ten APR criteria. Very few companies had double-digit positive 5yr APRs the last five years. In fact most plans were hurt not helped by company stock, which often had double-digit negative returns. The second place portfolio has no company stock and is more diversified.

The Stanton & Castleton RJFIRA has no stable value fund (group annuity) but the Balanced portfolio has about the same Sharpe ratio, 1.23 compared to 1.25, as Baxter International. It does have a bond fund that is very stable, BTFTX, which is a closed end fund. It also has a high percentage of 5 star funds. Many of them like SGENX keep a few percent in gold and that helps to control volatility. Another thing I like about this portfolio is the large number of funds, 9, in the Balanced portfolio. It is more like a ship than a lifeboat.

The next two 401k plans Balanced portfolios were also helped by strong 5yr company stock performance. Like the top plan both were not well diversified. They each had over one-third of the Balanced portfolio in company stock. General Mills Balanced portfolio has everything in three options and Chevron Texaco has everything in four options, which includes company stock. There was

only one other 401k plan aside from the S&C IRA that had more than four investment options in the Balanced portfolio. It was the Bank of America, BAC, 401k plan. Their stock like most large bank stocks collapsed in 2008 but they had a few government investment options like FGMNX in the plan and over 30 other options. Their 401k Balanced portfolio had six investments and I show their scan as a reminder that even in a Black Swan market there are lifeboats in most plans including those with negative 5yr APR company stock.



Conclusion

Every 401k plan needs a lifeboat; a stable investment option of some sort and most have them. Also, a managed GIC portfolio is a good idea especially since the employee portfolios show that most did not make use of the 401k-plan lifeboat in 2008. That said I doubt a lifeboat is going to take you very far in retirement.