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A "Failed Experiment"? Weston Wellington, Down to the Wire
Vice President

Joe Nocera is a bright guy. Over the course of a lengthy career, the former Fortune executive editor has won numerous awards for excellence in business journalism and recently co-authored a penetrating analysis of the financial crisis (*All the Devils Are Here: The Hidden History of the Financial Crisis*). He now hangs his hat at the *New York Times*, covering a wide range of business-related topics.
Mr. Nocera also stands out for his willingness to discuss the sorry state of his personal finances, a startling admission for a world-class financial journalist. With his sixtieth birthday approaching, he recently revealed to readers that his 401(k) is "in tatters." Some of the culprits are familiar: A concentrated strategy during the technology boom put a big dent in his portfolio, and a divorce several years later inflicted similar damage. A third source of difficulty is harder to fathom—the decision to raid his 401(k) to fund a home remodeling project. Such behavior strikes us as the sort of short-term thinking journalists are so quick to condemn in the executive suite. Mr. Nocera acknowledges that good financial advisors provide sound advice regarding discipline and diversification, but he doesn't appear to have consulted one.
Mr. Nocera found a sympathetic ear in Teresa Ghilarducci, a behavioral economist at The New School. She was not the least bit surprised by his experience—most humans, in her view, have neither the skill nor the emotional stability to be successful investors. She finds the entire concept of a participant-driven 401(k) a "failed experiment."
Prompted by this tale of woe, I dug out twenty-three years' worth of 401(k) statements and surveyed the results for the first time. As a thirty-nine-year-old research director at LPL Financial, I was late to the starting line for the retirement race. I filled out the enrollment forms and devoted about three minutes to the task of selecting my retirement plan vehicles. When I opened my first 401(k) statement in March 1990, it showed a whopping balance of $195.26 from investments in three Putnam Equity mutual funds—two US and one global. (Mr. Nocera says he began putting retirement money away in the late 1970s, so he had at least a ten-year head start.)
After joining Dimensional in early 1995, I liquidated the Putnam funds and placed the rollover balance in Dimensional's 401(k). I don't recall what my thinking was at the time, but with seven equity funds in my account rather than three, it seems plausible that I devoted more than three minutes to the portfolio construction decision. Maybe six.
Over the last twenty-three years I have occasionally been tempted to fiddle with the allocation scheme, usually after some big move in the markets up or down. But I am skeptical of my capacity for self-discipline. What if a tactical decision to underweight small stocks or overweight emerging markets turned out to be right? Would I be tempted to make an even bigger bet the next time? I could find myself on a slippery slope leading to a one-fund portfolio. My preferred strategy, as a result, is to do nothing. Some might argue I have taken this slothful approach to an extreme, having never added a new fund to the lineup

(no Emerging Markets Value?!), never tweaked the portfolio weights, and never rebalanced. Call it the Rip Van Winkle strategy—when you get the urge to do something, take a nap.

From a humble beginning, my account has grown to a generous sum over the past twenty-three years, although it hasn't always been smooth sailing. Using quarterly data, the overall value fell 12.8% during the technology stock meltdown (March 31, 2000–September 30, 2002) and suffered a thumping loss of 46.8% during the financial crisis (September 30, 2007–March 31, 2009), despite a stream of fresh contributions. But the recovery was dramatic as well—up 77.5% for the twelve months ending March 2010 and up another 23.5% for the subsequent year. The current balance exceeds the 2007 high water mark by a comfortable margin. This is not an exercise in self-congratulation, just an example of what anyone could have done by harnessing the forces of competitive markets.

Perhaps the 401(k), in its current form, is indeed a "failed experiment" for a substantial fraction of the workforce. Another interpretation is that the 401(k) was never intended as a centerpiece for retirement funding, and the enrollment process cries out for improvement. Participant outcomes might be greatly enhanced if choices were presented in a way that acknowledges persistent behavioral traits leading to poor decisions.

And when it comes to charting one's financial future, it appears even journalists skillful enough to unravel complicated financial puzzles can benefit from an objective second opinion.