

Conspiracy of Silence, or the Dog That Did not Bark?

“Truth is so obscured nowadays and lies so well established that unless we love the truth we shall never recognize it.” - Blaise Pascal

In the Sherlock Holmes mystery *Silver Blaze*, the key clue was that a watchdog in a stable did not bark on the night of the murder of a race horse trainer. Holmes was able to conclude from this that the perpetrator was not a stranger, but the dog’s owner. Sometimes, it is not what is present that is most revealing, but what is absent.

Most 401(k) plans allow participants to select from among a palette of investment funds – international, small company, growth stocks, etc. Plan fiduciaries choose the investments to offer to participants. This format is well established. The fiduciaries tend to know the performance of the investment funds, but they do not tend to know the critical information that would allow them to assess the quality of plan education specifically and the retirement plan generally – how the participant portfolios are actually faring. The goal of a 401(k) plan is to provide for the quality of retirement living for participants, not to offer “five star” mutual funds or distribute glossy education brochures at enrollment meetings. As long as the truth of how participants are actually doing is obscured, we cannot know if the plan is achieving its goal.

We have read studies indicating that participants in the typical 401(k) plan are not doing a good job of managing their own retirement funds. We have read other studies reporting that mutual fund investors generally have far worse performance than the funds in which they invest, due to poor market timing (buying after the market has gone up and selling after the market has gone down) – a result that could probably be extrapolated to 401(k) participants. What we have not found, however, is research indicating plan participants in the typical-format 401(k) plan are doing *well*. It is hard to prove a negative, but based upon our experience of analyzing participant returns and the research we have seen, we believe most plan fiduciaries and participants would be distressed to learn the performance of participant accounts.

The strongest argument fiduciaries have for their failure to learn the critical information about participant returns is that the failure is widespread – “everyone” just offers the participants various options and lets it go at that. The lie that this is the only way to do it is well established. But sometimes the norm is disastrous – just ask a lemming after he has run off the cliff with his buddies. If participant performance is as bad as we think it is, it is not just a potential problem for plan fiduciaries, it is a future societal crisis as the huge baby boomer generation reaches retirement age without sufficient resources.

“When everything is moving at once, nothing appears to be moving, as on board ship. When everyone is moving towards depravity, no one seems to be moving, but if someone stops, he shows up the others who are rushing on, by acting as a fixed point.” – Blaise Pascal

If research studies found good investment results by 401(k) plan participants, why should it be hard to find? Who has an incentive to keep the information secret? Could a conspiracy of silence be preventing us from knowing data that would allay our worries about 401(k) plan participant performance? Our culture loves conspiracy theories – think of the alien space

ship landing at Roswell, New Mexico, or the auto interests not selling the tires that never wear out. Most conspiracy theories, however, include a plausible reason why those involved must hide the “truth.” A huge industry promotes, provides and services 401(k) plans. Its growth depends upon creating new plans and encouraging new participants to join existing plans. The industry should be blasting us with media reports and advertising telling of research studies showing wonderful participant investment performance.

We do not believe a conspiracy of silence is keeping us from knowing the wonders of the typical 401(k) plan format. It seems far more likely that this is the dog that did not bark – something notable and meaningful for its absence. If participants were doing well, we should be flooded with data and examples. It should be hard to escape insurance company, bank and mutual fund ads extolling the wonders of getting rich through superior 401(k) participant performance.

The fact that we cannot find this information suggests three possibilities: (1) the information is not known because nobody has thought to compile it; (2) nobody has an incentive to spend money and time to investigate if they suspect that they will not like what they find; or (3) somebody (or maybe several different people acting independently) has done the research, come up with a bad answer, and kept it quiet – a true conspiracy of silence.

Which of the three possibilities is correct does not really matter. We cannot evaluate the success or failure of 401(k) plans unless we know how participants are actually doing. We challenge the industry to provide us with the answer. We will be happy if somebody proves us wrong – it will help us sleep at night, or at least allow us to move on to other worries. Isn’t it time that we progressed towards a more modern appreciation of how to design a 401(k) plan? Isn’t it time that we took the simple step of recognizing how participant portfolios are performing, of assessing the efficiency of the plan in meeting its goal? If you are a plan participant, we suggest you demand from your plan a way of estimating your individual account performance. If you are a plan fiduciary, learn to love the truth and find a way to calculate the performance of plan participants. There are effective ways to run a retirement plan – if the truth is no longer obscured. We can help you. Call us at (503) 419-3938 or check us out on the web at www.sigmainvestment.com.