Since the founding of 10X Investments, chief executive Steven Nathan has developed a maverick reputation. Retirement planning is obsessed with form, he argues, when it should be focused on substance.

The retirement-fund industry has gone off course. Distracted by investment and regulatory noise and by self-interest, it has lost sight of the real issue: how do we give fund members the best possible chance of meeting their retirement goals?

All want to secure a pension that will maintain their standard of living throughout retirement. Yet the industry has made form and innovation the focal point, offering hundreds of funds managed by dozens of fund managers -- each promising a singular skill, unique insight and the most appropriate investment style and strategy.

The confusion is compounded by multiple fee layers, subject to complex formulas and opaque reporting. Which retirement investors, and which trustees acting on their behalf, can make sense of this organised chaos? They lack the insight and tools to make informed choices. The confusion and complexity disempower investors and trustees, keeping them hostage to ‘independent’ consultants.

Many consultants are conflicted. Some represent companies that provide administration and investment management services, and accordingly nudge investors towards in-house products. Others simply seek to maximise their own commissions.

They conceal that a 1% annual saving in fees can increase the long-term pension value by up to 30%. They disregard low-cost service providers and lead clients to high-cost products. They advocate actively-managed funds, fully aware that the great majority deliver lower returns than index funds.

They also misrepresent risk. In the context of a long-term retirement plan, the relevant risk is not that short-term equity returns are uncertain, but that fund members miss their retirement goals.

Yet investors are asked to consider their personal risk tolerance, as though it matters to their pension fund whether they play chess or sky-dive on weekends. These are lucrative distractions that require ‘advice’ and deflect from the real issues.

Investors need more than biased recommendations. They require an objective framework that enables them to make informed decisions. And they need the tools to identify the optimal solution from the myriad options.

The first step is to understand and quantify the investor’s retirement goal. What is the required pension pot that will enable the individual to maintain his or her standard of living throughout retirement? This is a function of final salary, the desired income replacement ratio and the cost (or sustainable drawdown rate) of an annuity.

The next step is to develop a savings and investment strategy that has a high probability of meeting this goal. Critical factors are the savings term, the contribution rate and the real (after-inflation) investor return.

Two factors drive the investor return. One is asset allocation; the other is fees. Any decision must consider the cost of respective strategies. It is here that the matter of umbrella or free-standing fund becomes relevant.
Within this framework, we've produced a fee model that calculates total fees incurred by each investor (member) and the reduction in yield (RIY) expressed as % of the investment balance; the 10X retirement calculator then quantifies the probable success rate of different portfolios (low, medium or high equity) and RIYs. This information enables trustees to design an optimal retirement plan with the highest probable success rate.

It’s more relevant to trustees than a ranking table of fund managers’ past performance. Only in this context does form become relevant: which service providers can deliver the specified investment strategy and portfolios, and meet the required standards in terms of cost, administration, reporting, service and governance.

It then remains for trustees to implement and monitor the plan against the stated retirement goals and agreed service levels. Do actual returns measure up against expected, benchmark and peer returns? Do fees, administration, service and other deliverables comply with the service-level agreement? Are investors informed of progress and alerted to shortfalls?

Once a retirement plan is set out in this way, form and complexity can be seen as illogical and irrelevant.

The Lenape Indians sold Manhattan to the Dutch in 1626 for a bunch of beads estimated to have been worth 60 guilders at the time. At a 7% per annum rate of return the current value would exceed €5.5 trillion, allowing the Indians’ descendants to buy Manhattan back and have trillions to spare.

At Foord Asset Management we believe in investing for the long term. Our track record over 30 years is proof that managing investment risk and compounding superior returns are key to the creation of exceptional wealth.

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