

Your Personal Asset Allocation

Too many individual investors blur the distinction between “saving” and “investing.” “Saving” is setting money aside in a secure location for a certain need or desire. “Investing” entails putting money to work towards achieving a financial goal with the possibility of generating return. As an investor, it is of utmost importance to be able to answer certain fundamental questions: *Will your current investment portfolio be able to meet both short- and long-term investment objectives? Is your current portfolio correctly geared to your individual level of tolerance for risk?*

One sound way to answer these questions is by utilizing asset allocation—a disciplined, objective investment game plan that will help you meet your financial goals. Many CERTIFIED FINANCIAL PLANNER™ professionals believe the asset allocation decision is the most important step in the investment process. To be most effective, a personal asset allocation model should be tailored to your particular goals and needs.

A simple asset allocation model for an individual investor generally requires a portfolio of assets divided into three categories -- stocks, bonds and cash. Each is assigned a fixed percentage. Based on this strategy, a conservative portfolio would generally contain more bonds and cash than stocks. A more aggressive portfolio might contain a higher percentage of stocks. Since diversification of assets is generally recognized as a reliable way to reduce and manage risk in a portfolio, the mix of assets in your allocation model should reflect your preferred level of risk. Considerations such as current spending requirements, tax implications and inflation-adjusted return may also be addressed through the asset allocation process.

Asset allocation is flexible and revolves around personal needs. However, CERTIFIED FINANCIAL PLANNER™ professionals have generally found investors at various age levels tend to be best served by adopting allocation models that address the needs of their “life-cycle phase”. In most cases, the longer your investment time horizon, the more aggressive your investment strategy might be.

For example, investors in their 30s and 40s tend to have several needs and concerns in common (e.g., children, new home, college education, retirement planning). To address these concerns, an asset allocation plan that emphasizes stocks is often recommended because they historically have provided superior returns over time. At the other end of the spectrum are investors who are close to or who have entered into retirement. Their goal might include providing enough income to maintain a lifestyle, or growth of their capital to ensure that they do not outlive their assets. For these investors an above-average holding in bonds may be recommended.

Obviously, these are only guidelines. When implementing an asset allocation strategy, the various percentages allocated to stocks, bonds and cash should be assessed on a personal basis and reassessed annually. Be sure to review your asset allocation strategy regularly with a CERTIFIED FINANCIAL PLANNER™ professional.