

# Asset Allocation

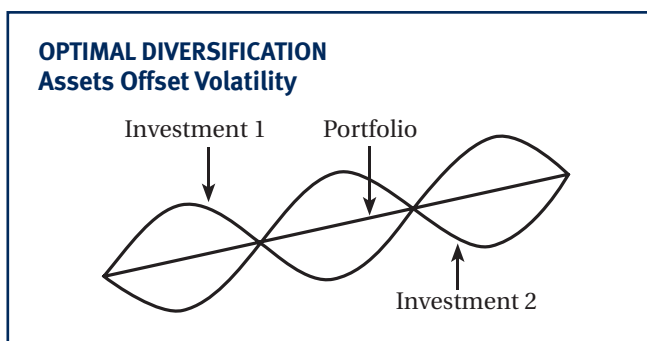
## A SMART INVESTMENT STRATEGY

Asset Allocation is an approach in which you invest in different asset categories — mainly cash, fixed income, and equities. By diversifying your money across and within these asset classes, you can help minimize risk and potentially improve your overall returns.

How you allocate your assets hinges upon several factors, including your financial objectives; attitudes toward risk and investing, desired return, age, income and tax bracket, time horizon, and even your belief in what the market will do in the near-term and long-term. Whether you're investing for retirement, a child's college education, or for other goals, asset allocation is a smart investing strategy.

## DIVERSIFICATION: THE MAIN PRINCIPLE BEHIND ASSET ALLOCATION

The underlying principle in asset allocation is the documented observation that different categories of investments have varying rates of return and levels of price volatility over time. By diversifying your investments over several asset classes, you may reduce risk and volatility while achieving strong returns.



Generally, downturns in one investment class will be tempered or even offset by favorable returns in another. Just as using different asset categories within a portfolio can help reduce your risk, your choice of individual assets within an asset class may do the same. For example, choosing stocks from different industries (i.e. automotive, retail, or utilities) within your stock allocation can be less risky than investing all of your stock allocation in one industry or company.

## RISK TOLERANCE

It is important to determine your risk tolerance before allocating your assets. Different investors react differently to the same market movements because of their different comfort levels with risk. Are you comfortable taking bigger risks in exchange for potentially bigger rewards? Or would you rather “play it safe” with your money?

In general, the higher your risk tolerance, the more comfortable you should feel about owning equities. The lower your risk tolerance, the more comfortable you should be with bonds or cash-equivalent investments.

## BALANCING RISK & RETURN

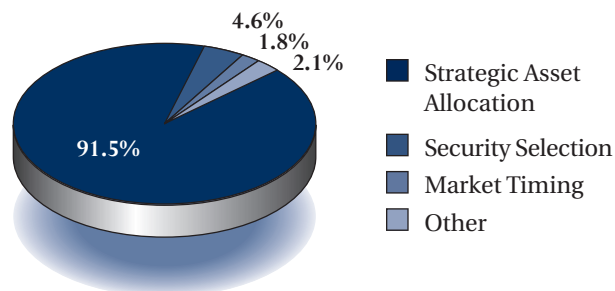
Asset allocation can help you balance the risk and return in your portfolio. In addition to their varying advantages and disadvantages; equities, fixed income, and cash respond differently to the same market conditions. They don't move in tandem. For example, when the stock market is rising, bond prices may be falling (and vice-versa).



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# Asset Allocation

## Key Driver of Variance of Portfolio Returns



Source: Brinson, Singer and Beebower, *Financial Analyst Journal*, 1991

## AN EFFECTIVE ASSET ALLOCATION STRATEGY TAILORED TO YOUR INDIVIDUAL SITUATION IS ONE KEY TO LONG-TERM INVESTMENT SUCCESS.

Consider the following:

- Asset allocation is responsible for more than 90% of variations in portfolio performance. (see page 1)
- When assets are invested over time, the key driver of variance of portfolio returns has been the asset allocation decision.
- Ineffective diversification simply adds more securities, without enhancing returns or moderating risk.
- There is no single asset allocation model to fit every investor, or for every stage of life. The asset allocation decision is a personal one.

## TIME HORIZON

Each of your goals has a time horizon — the number of years before you'll need the money you invest. When planning for retirement, it is also wise to consider how long you'll likely need the money to last once you begin spending it. The longer your investment time horizon, the more volatility risk you may assume. With a longer-term investment horizon, you can ride out several economic cycles, and your highs should generally outweigh the lows. A shorter investment horizon may require a more conservative approach. You may want to allocate investments into a lower volatility mix of asset classes as the time approaches to convert your investments to cash for your particular goal.

## MONITORING & REBALANCING

The asset allocation you utilize today may not be appropriate for you in the future. This can be the result of economic fluctuations and/or changes in your investment objectives, and personal or financial circumstances. In addition, any growth or decline within asset classes may cause your asset allocation ratios to shift. For these reasons, it is important to monitor your asset allocation periodically and rebalance your portfolio as needed. Rebalancing your portfolio requires you to shift funds from one asset class to another in order to regain the ratios you determined appropriate for your investment portfolio.

Contact your Financial Consultant to discuss the benefits of Asset Allocation.

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