INVEST **CONFIDENTLY** WITH **ASSET ALLOCATION** STRATEGIES

"The only place where success comes before work is in the dictionary"

~Vidal Sassoon

INTRODUCTION

- Asset allocation is a major influence on the kind of returns you can expect from your portfolio. It dictates what portion of your assets is exposed to high risks, and what portion can yield potentially high returns or stable low returns.

- When you understand asset allocation strategies, you can balance your portfolio in view of your financial goals and achieve these goals. You can design a strategy to keep your exposure to risks at a level you are comfortable with and to keep growing your investment portfolio quickly enough to allow you to retire as planned.

UNDERSTANDING ASSET CLASSES

- An asset class refers to a group of investment vehicles that can be used to achieve similar financial goals.

- Investment vehicles can be organized into four main classes:
  - Cash equivalents
  - Fixed Securities
  - Equities
  - Physical Properties

CLASS 1 - CASH EQUIVALENTS

- Safest way to invest your money
- Low returns compared to other asset classes
- Guaranteed profits, even if the returns are low
- They will not help you grow your portfolio to any great extent, but will protect you from losses in case other portions of your portfolio do not perform well.

ADVANTAGES OF CASH EQUIVALENTS

Don’t lose their value if the market takes a turn for the worse	• They should represent a significant portion of your portfolio if you are a conservative investor.
You can invest for the short-term.	• This asset class is ideal if you are approaching retirement.
Some products can be used for collateral.	• This is a good investment if you believe you will need to borrow against your portfolio in the future, e.g. to finance a house.

ADVANTAGES OF CASH EQUIVALENTS

Returns are usually set in advance.

- You know exactly what your investment will yield, what the maturity date is, and will not be tempted to take additional risks to potentially earn more.

Liquid

- Some products that belong to this asset class give you access to your money at any time.

CLASS 2 – FIXED INCOME SECURITIES

- Investment vehicles with regular payments
- You also get your initial investment back once the product reaches its maturity.
- Great way to protect your portfolio from market fluctuations.
- You will receive the scheduled payouts regardless of how the market performs and can generate a good profit if you wait for the right products to be available.

CLASS 2 – FIXED INCOME SECURITIES

- Bonds are the most popular fixed income securities.
- You can purchase bonds from:
  - The U.S. government
  - Foreign governments
  - Corporations
- This asset class also includes preferred stocks with dividends.
- Bonds and other fixed income securities do not require you to actively manage your portfolio and provide you with a reliable source of income.

DOWNSIDE OF FIXED INCOME SECURITIES

Traded between dealers and between dealers and individual investors.

- There is no central pricing information, which can make it difficult to know if you're paying a fair price.

Some securities are very difficult to find.

- It could be months before you have the opportunity of purchasing the security you were interested in.

The returns are low.

- On the plus side, you aren't taking any significant risks. Plus, you benefit from a predictable income.

CLASS 3 – EQUITIES

- Shares of companies traded on the stock market
  - Includes mutual funds and index funds
- Higher risks than cash or fixed income securities. The value of a share depends on the company's performance.
- Historically, returns have been higher on this market than bonds and cash equivalents.
- Higher risks also mean you can lose large amounts of money if a company underperforms or if an entire sector of the market is in bad shape.

RULES FOR WISE EQUITIES INVESTMENTS

Purchase equities when the economy is growing.

- If the inverse is true, focus on other asset classes for a while.

Create a diversified equity portfolio.

- Invest in different companies and sectors.
- Diversifying lowers your risks.

Do your research.

- Always look at historical data and do research on the company you want to invest in before buying shares.

CLASS 4 – PHYSICAL INVESTMENTS

- Real estate is by far the most popular type of investment in this asset class:
  - Growth from property appreciation
  - Regular income from renting out your properties

- Precious metals are another popular physical asset. You can build a collection of coins and bullion over the years and even deposit qualifying coins and bullions into an IRA if you no longer want to store them in your home.

- Other investors see art, classic cars, and other collectibles as a good way to save for retirement.

“It’s not how much money you make, but how much money you keep, how hard it works for you, and how many generations you keep it for.”

~Robert Kiyosaki

PROFIT AND RISKS

- To determine an asset allocation strategy:
  - Assess your risk tolerance
  - Decide what kind of profits you're looking for

- Risk and reward usually go hand in hand:
  - (Potentially) High returns -> High risk
  - Low returns -> Low risk

PROFIT AND RISKS

- Closer to retirement:
  - Allocate a larger portion of your portfolio to safe investments you can rely on for regular payouts.
  - A smaller portion should be dedicated to equities to still gain exposure to potentially high returns without risking too much.

- Years away from retirement, have a small portfolio, & receive regular income:
  - Taking risks is a good strategy. You will have years to recover from a loss and grow your portfolio.

RECOMMENDED ASSET ALLOCATION

Equities

50 - 90% of your portfolio	Deduct your age from 110 to get an idea of a popular allocation.

Cash equivalents

20% of your portfolio	Eliminate this class if you want quick growth.

Fixed income securities

40-60% of your portfolio if you want that income in the next few years	10% if you want aggressive growth

“I will tell you the secret to getting rich on Wall Street. You try to be greedy when others are fearful. And you try to be fearful when others are greedy.”

~Warren Buffett

PICKING THE RIGHT MIX OF STOCKS

- Stocks can make your portfolio grow, but allocating 90% of your portfolio to a single market is a terrible mistake. Diversification is crucial when investing in equities.

- Investing in large, well-known companies is a tempting option. However, historical data reveals that the higher returns usually come from small companies that become successful.

- The best approach is to create a mix of safer stocks from large companies that will still be around when you retire and stocks from promising small companies.

BEST MIX OF STOCKS

Growth stocks

- Good potential for high returns
- Think tech startups and other emerging markets.

Value stocks

- Likely to retain their value
- This category includes major chains and most stocks with dividends.

PICKING STOCKS FROM DIFFERENT COMPANY SIZES

Large cap

Includes huge retailers such as Wal-Mart or Amazon

Mid cap

Market dominators like your local energy provider

Small cap

Companies with growth potential like holding companies

Micro cap

Small businesses and startups

“Financial peace isn’t the acquisition of stuff. It’s learning to live on less than you make, so you can give money back and have money to invest. You can’t win until you do this.”

~Dave Ramsey

ACTIVE OR PASSIVE INVESTING

- Passive investors:
  - Look for safer investments and follow trends
  - Asset allocation:
    - Mostly fixed income securities and cash
    - Smaller portion of index funds to add some equity
- Active investors:
  - Pick individual stocks to achieve the highest return possible
  - Asset allocation: larger portion of portfolio is in equities

Using a mix of both approaches is a smart strategy. If you don't like much risk, you could dedicate a percentage of your portfolio to passive investing techniques and use a smaller percentage to invest more actively.

"The Stock Market is designed to transfer money from the Active to the Patient."

~Warren Buffett

PLANNING FOR RETIREMENT

- Your portfolio has to meet certain financial goals so you can retire on time and live comfortably. Your ideal retirement age should be taken into account when deciding on an asset allocation strategy. If you fail to properly balance your portfolio, you might have to work longer or might not live as comfortably as you wish once you retire.

- If you're decades away from retirement, focusing on stocks is the best way to grow your portfolio. Start choosing safer investing vehicles as you approach retirement to build a solid basis of fixed income securities that will provide you with a guaranteed income.

"The individual investor should act consistently as an investor and not as a speculator."

~Ben Graham

REBALANCING

- You cannot pick an asset allocation strategy and follow it throughout your entire life. Your portfolio needs to be rebalanced on a regular basis.
- For example, you may want to reshape your portfolio once you retire and begin withdrawing returns from your fixed income securities.
- Go over your financial goals regularly to ensure your current asset allocation strategy is still relevant. Re-evaluate your strategy based on how the market is performing.

WHEN TO REBALANCE

You consistently fail to meet the financial goals you set for your portfolio

This is a sign that you might need to switch to a more conservative approach.

Set reasonable goals, and perhaps get help from a professional.

The stock market crashes

Your best option is to focus on safer investments until the economy picks up again.

Take advantage of low share purchase prices of companies that are likely to recover.

A major life event affects your finances

Losing your job means you might no longer be able to contribute a certain percentage of income to your portfolio.

Avoid taking risks, since you might not recover from a large loss if you can no longer make regular contributions.

"If plan A fails, remember there are 25 more letters."

~Chris Guillebeau

CONCLUSION

- There isn't a single best way to grow and manage your portfolio. It helps to know about asset allocation and understand what each class of assets can do for you.
- Choose your asset allocation strategy based on your goals, the risks you are comfortable with, and how the market is performing.
- Think about getting help from a professional if you are not sure how to balance your portfolio or want recommendations for specific investment vehicles.

"WEALTH IS NOT HIS THAT HAS IT, BUT HIS THAT ENJOYS IT."

~BENJAMIN FRANKLIN