Help Take the Guesswork Out of Choosing Investments

Asset allocation is a strategy that can help take the guesswork out of choosing investments for your portfolio. Instead of putting all your eggs in one basket, you spread your eggs (dollars) among a variety of baskets (stocks, bonds, and cash). The baskets can be further divided within each type of investment.

Although many investors understand that they should invest in a variety of securities, they often stumble when it's time to choose an asset allocation that's right for them. The allocation that you choose should be based on how much risk you are willing to assume, why you are investing and when you will need to tap your investments.

However, in some cases, once investors choose their allocation, many are afraid to change it. As you experience changes in your life, it can be appropriate to redistribute your assets.

So, when should you change your asset allocation? It is important to maintain balance in your portfolio. Accordingly, you should reevaluate your allocation strategy at least once a year or when you experience a major life change such as marriage or the birth of a child. It's not always necessary to make a fundamental change to the allocation, but you need to make that evaluation on a regular basis.

Sometimes your portfolio might just need a tweak to rebalance assets that have either increased or decreased in value. For example, a booming stock market may mean that the value of the stock portion of your portfolio exceeds your original allocation. If that occurs, you may want to consider selling some stocks to bring your portfolio back into line with your initial allocation. Rebalancing is a strategy that every investor should take advantage of as a way to ensure their portfolio reflects their current investing goals, time horizon, and tolerance for risk. Further changes to your allocation also may be appropriate depending on your particular investing style.

Strategic investing. Most investors take a strategic approach to asset allocation, meaning they have at least 10 years before they anticipate needing the money they are investing. Strategic investors look at the long term and typically do not make frequent changes to their allocation strategy. A strategic investor would change the way his or her money is invested if there was a fundamental shift in the economy (recession) or if inflation began to outpace the earnings that his or her investments were generating.

Cyclical investing. Because the economy is cyclical, meaning it moves in stages of prosperity and recession, some investors change the way they allocate their assets based on the cycle of the economy. This is called cyclical investing – it typically means that an investor will reallocate his or her funds every three months to three years. A cyclical investor might invest heavily in stocks when the economy experiences growth and, conversely, would invest more dollars in bonds when the economy experiences a period of contraction.

Tactical investing. The third type of investor looks at the short-term – a period of one year or less. The tactical investor changes his or her portfolio based on trends in the market. A tactical approach to asset allocation isn't for everyone as it typically requires an investor to trade rather actively and sometimes trade with greater risk.

Each investor has unique goals for his or her money and a distinctive investment style. It is best to talk with your Financial Advisor about what kind of asset allocation would be right for you and how often you should redistribute your assets. Bear in mind that although asset allocations diversifies your assets, it does not protect against fluctuating markets and uncertain returns.

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