



## RETIREMENT & FINANCIAL PLANNING CORNER

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Accredited Investment Fiduciary ("AIF")



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### UNDERSTANDING INVESTMENT ASSET ALLOCATION FOR MARKET CORRECTIONS AND RETIREMENT INCOME PLANNING

#### Investment Vehicles

**Target Date Funds:** As you approach your retirement date, the fund moves its allocation to more conservative mutual fund investments (holding bonds and cash) and away from riskier mutual fund investments (holding equities).

**Asset Allocation Funds:** Asset allocation mutual funds let you own a mix of equity and fixed income securities to achieve a goal such as income generation or capital appreciation.

**Model Portfolios:** Model portfolios are a diversified group of assets designed to achieve an expected return with a corresponding risk. Ideally, each portfolio has a combination of managed investments based on extensive research. These portfolio blend asset classes, investment managers and investment strategies to achieve diversification.

**Index Funds:** An Index investment fund is a passively managed account based on representative holdings of the selected Index. The stock index can provide a statistical measurement of the stock prices in that index portfolio

<https://www.thebalance.com/the-pros-and-cons-of-target-date-funds-2466780#:~:text=Advantages%20of%20target%2Ddate%20funds,and%20a%20lack%20of%20diversification.>

<https://www.schwab.com/mutual-funds/types/asset-allocation-mutual-funds>

<https://smartasset.com/investing/model-portfolios>

<https://www.investopedia.com/articles/investing/011316/pros-and-cons-indexes.asp>

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## Target Date Funds

Target-date funds are often thought of as "set it and forget it" funds and are based on participant retirement age 65.

The reallocation over a predetermined period to reflect investors' changing tolerance for risk is known as the target-date fund's glide path. The glide path sets the fund's allocation among various asset classes over time, adjusting the mix from more aggressive investments early in the life of the fund to more conservative investments as the fund matures and investors approach their targeted goal.

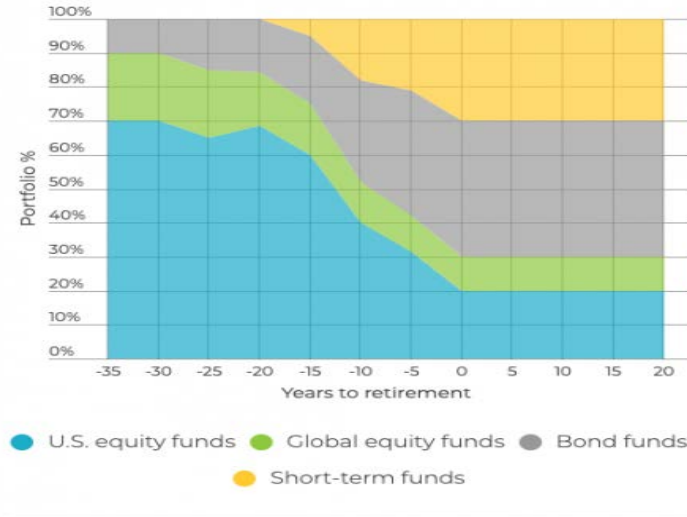
### Pros:

- Low Minimum Investments
- Professionally Managed
- Low Maintenance
- Adjust as Participant gets older

### Cons:

- Not all situations are one size fits all
- Higher Expense ratios for managed funds
- Lack of Diversification given fund approach
- Vary based on more of less equity exposure in up/down markets

### Target-date fund glide path



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## Asset Allocation Funds

These funds allocate a specific amount to fixed income and equities depending on the fund's goal. They typically offer income and growth potential in one fund. This investment selection maintains the same investment risk allocation until the investor makes a change.

Most asset allocation mutual funds have a stated target for the amounts invested in fixed income and equities.

The funds usually allow for some deviation from the stated target allocations but will rebalance back to the target allocation on a regular basis, such as monthly or quarterly.

Some asset allocation mutual funds allow for short-term adjustments to the target allocation to over- or under-weight portions of the portfolio based on market opportunity.

### Pros:

- All-in-one Portfolio
- Diversification
- Ongoing Asset Allocation changes based on market performance

### Cons:

- Set Allocations
- Investor has to manage their own risk as they age
- Not a strategic investment fund



<https://www.schwab.com/mutual-funds/types/asset-allocation-mutual-funds>

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## Model Portfolios

A financial advisor can assemble a model portfolio for investors and illustrate how it will achieve their goals. Generally model portfolios are adjusted by the portfolio manager based on investor age and risk tolerance.

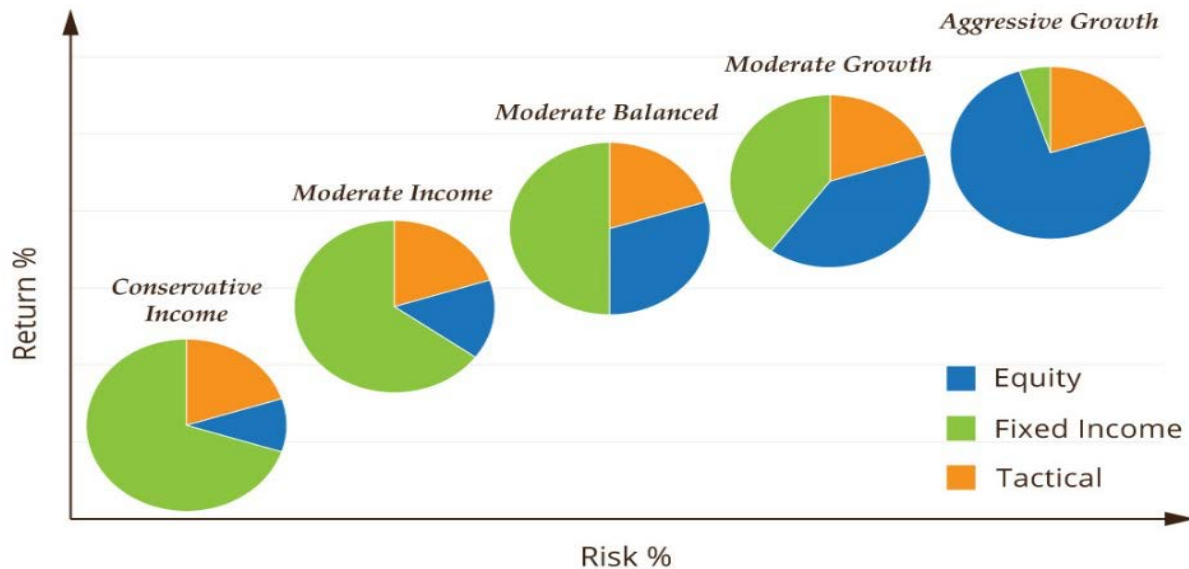
Model portfolios are a diversified group of assets designed to achieve an expected return with a corresponding risk. Ideally, each portfolio has a combination of managed investments based on extensive research. These portfolio blend asset classes, investment managers and investment strategies to achieve diversification.

Pros:

- Diversification
- Research and Professional Analysis
- Rebalancing

Cons:

- Lose control of Asset Management
- Additional Management Fees generally apply
- Bond and Cash investment will vary



<https://smartasset.com/investing/model-portfolios>

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## Index Funds

An index fund is a passive portfolio of securities that follows a broadly accepted index like the S&P 500. The stock index can provide a statistical measurement of the stock prices in that portfolio. An index is typically constructed using the shares of leading companies in the economy or in a particular sector.

Indexes first became popular with the Dow Jones Industrial Average (DJIA), which was created by Charles Dow in 1896. Since then, other stock indexes have become popular, including the S&P 500 and the NASDAQ Composite.

### Pros:

- Passively Managed
- Low Fees
- Performance

### Cons:

- Not enough Diversification
- Investor has to manage their own risk as they age



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