

Maintain Your Retirement Bearings with Asset Allocation

One of the cornerstones of successful retirement planning is **asset allocation**. By reviewing and adjusting your asset allocation strategy, as need be, you can help ensure your investment program meets your changing goals and needs.

Asset allocation is the process of spreading investments *across* and *within* the major asset categories of **equities**, **bonds**, and **cash**. Since different investment categories have different characteristics, they rarely rise or fall at the same time. The main objective of asset allocation is to choose investments according to your risk tolerance, desired level of income or return, and time horizon.

Risk tolerance refers to your ability to withstand market turbulence and possibly sustain a financial loss. Choosing appropriate investments means balancing your risk tolerance against the differing volatility levels of various asset classes. For instance, a low risk tolerance may dictate a portfolio that emphasizes conservative investments, while sacrificing the potentially higher returns that may entail taking a higher risk.

Desired level of income or return refers to the income and/or growth you expect your portfolio to generate in order to meet your objectives. Retirees may prefer a portfolio that emphasizes current income, while younger investors may wish to concentrate on long-term growth.

Time horizon refers to the period from when you begin implementing an investment strategy until you must begin withdrawing money from your portfolio. A shorter time horizon may call for a conservative portfolio, emphasizing safety of principal. On the other hand, a longer planning horizon may allow you to take greater risks, since you have more time to recover from market downturns.

Although guidelines exist to help establish the *general* framework of a well-diversified portfolio, building a portfolio that is right for *you* involves matching the risk-return tradeoffs of various asset classes to *your* unique investment needs.

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