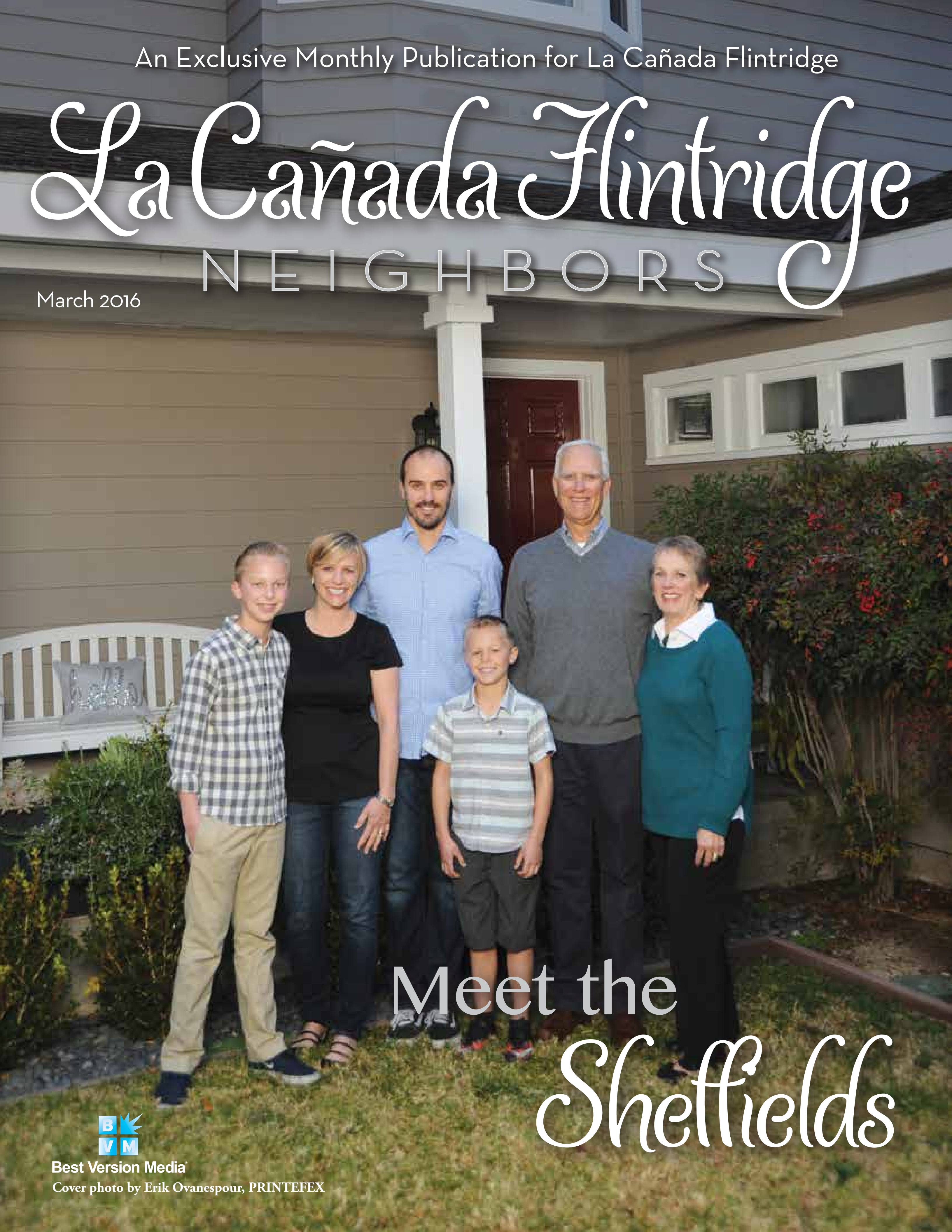
An Exclusive Monthly Publication for La Cañada Flintridge

La Cañada Flintridge NEIGHBORS

March 2016



Meet the Sheffields

Best Version Media

Cover photo by Erik Ovanespour, PRINTEFEX

With Too Much GREEN, You Might See RED

By Brad Creger – President & CEO, BFF Financial, Inc.

Saint Patrick's Day will soon be here and my children will be wearing green to school to avoid getting pinched by the other children. For us adults we may also be wearing green on that day too.

Does it matter what shade of green you wear? Nope. Any green will do. In fact, you can even mix and match and wear all types of greens together and get away with it. On any other day of the year, we all KNOW we can't wear mismatched green clothing and leave the house.

Where else do we accept having too much of one thing and not think anything of it?

I have found that many investors do not understand asset allocation. No matter what type of stock mutual fund you have, it is considered to be in the "stock" asset class. It doesn't matter that you have a U.S., international and/or an emerging market stock fund as these all invest in stocks. The same is true if you have large-cap, mid-cap and/or small-cap funds as these too are just a twist on the "stock" asset class.

Why did you buy so many different stock funds? You were probably told that having different stock funds would provide "proper diversification" and thereby reduce your risk. You may even have been shown a chart from the 1995 Brinsen, Hood and Beebower study illustrating that 93.6% of the variability of your return was determined by your asset allocation. Most people won't remember this study by name but they remember being told that it proved that diversification would reduce their risk. This is true as diversification does reduce risk.

What may have been skipped was this study ONLY included stocks, bonds and cash. In other words, this study did NOT differentiate between various types of stock investments and instead considered them one asset class. Since all stock investments were considered one asset class, this study did not support achieving diversification through owning various types of stock investments. Although having different stock investments is a good idea, don't confuse this with having a proper asset allocation strategy.

The only way to be truly diversified and reduce your risk is to have your money allocated into the different types of financial assets including stocks, bonds, real estate, commodities and cash. These five broad asset classes have contrasting risk factors and encompass almost all of the opportunities for investment available today. (NOTE: Only directly owned real estate, including non-traded REITs, are considered to be in the real estate asset class. Real estate stocks or a mutual fund buying them is considered a stock investment, not real estate).

When compared to owning individual bonds, one can even argue that a bond mutual fund has "securitized" the bonds and made them behave more like a stock in terms of risk to your principal. Remember that with an individual bond you can hold it to maturity and get your principal back. With a bond mutual fund you have lost this significant advantage.

Too much green in the form of stocks, stock mutual funds and even other "securitized" investments could "pinch" your portfolio values. Remember that no investment strategy, including asset allocation, can guarantee a profit or protect against loss. As always, it's your money… but you might want to review your asset allocation with an eye towards risk reduction as this could help you avoid seeing red.

Securities and advisory services offered through Centaurus Financial, Inc., Member FINRA/SIPC, a registered investment advisor. BFF Financial and Centaurus Financial are not affiliated.