Investing for the Future: Understanding Asset Allocation

Saving on your own is important, but it can take much longer to save for retirement if you don't include investments as part of your strategy. Investing has the potential to compound your savings and provide larger returns, putting more money in your pocket in the future than if you saved in a traditional money market fund or savings account. And while there is risk involved with investing, approaching the process with guidance and understanding of products available will help you determine the amount of risk you are willing to take.

"Don't put all your eggs in one basket." We've all heard the saying, but this advice is extra important when it comes to investing. Historically, asset classes typically perform differently under the same market conditions. **By diversifying your investments among the various asset classes, you may be able to reduce the overall volatility in your portfolio.**

Asset allocation – how you distribute your investments among various asset classes – is important because it allows you to diversify risk, and thus more efficiently manage your portfolio. Unfortunately, a 2014 UBS Financial Services survey found that many Americans are still holding a lot of cash in portfolios and not in stocks. This is especially true of younger investors – who traditionally have had higher risk tolerances.

Starter portfolios are often divided into thirds – 1/3 stocks, 1/3 bonds and 1/3 cash and cash equivalents. More advanced portfolios – and those with greater risk tolerance – will often allocate more for stocks as stocks historically have the highest returns among the three major asset categories. Bonds offer more modest returns but are also generally less volatile. But the study found those age 36 and over currently average portfolios with 46 percent in stocks and 23 percent in cash – the remainder in bonds – while millennials have only 27 percent in stocks and 50 percent in cash.

There is no one-size-fits-all asset allocation solution. Key personal factors such as your risk tolerance, time-frame, liquidity and income needs, return expectations and tax situation must all be addressed as part of the process. Your asset allocation strategy should be to build an efficient portfolio of investments that will potentially meet your growth and risk parameters.

Determining your asset allocation strategy is a challenging but crucial step in developing an investment portfolio designed to help you achieve your financial goals. ***I can help you make sure you don't have all your eggs, or too many of your eggs, in the same basket.***

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