Asset Allocation Issues

The major asset classes are cash, bonds, stocks, real estate, and collectibles. Within stocks, there are large, mid, & small market capitalization, growth, blend, & value, and international classes. The idea behind asset allocation is to spread your investment dollars among various investment classes to smooth out the volatility of your overall investment portfolio. Asset allocation is all about "don't put all your eggs in one basket."

Many people loaded up on technology stocks in the late 1990's as their values went way up. When the technology market corrected in 2000 & 2001, their portfolios went way down. Those people who had a more diversified portfolio gave up some of the upside but had fewer losses during the "tech wreck." Diversifying your portfolio among the various asset classes tends to reduce the volatility of your investments as different investment classes do not all rise & fall together.

Stocks have generally provided greater returns than bonds over long periods of time (over 25 year periods). However, during shorter time periods, bonds & other asset classes can provide greater returns than stocks. Investors with less risk tolerance should put less money into stocks and more into bonds. Generally the younger you are, the more money you can afford to put into stocks. As you get closer to retirement, protecting your assets becomes more important. As a result people generally near or in retirement look at the fixed income of bonds for a larger portion of their portfolios.

How do you structure your asset allocation? Here are the steps:

? Define your financial goals and the length of time you have to achieve those goals.

? Consider how comfortable you are with investment risk - for example, will you lose sleep over stock market investments that move up and down in value?

? Create a balanced portfolio with a mix of investments from the major asset classes and markets.

? Adjust your portfolio mix as you move through life. For example, when you're younger you may want to concentrate on equities to build wealth. As you approach retirement, you may wish to preserve the wealth you've accumulated through a greater concentration of lower-risk, fixed-income assets.