

## Asset allocation has advantages

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Your asset allocation strategy represents your personal decisions about how much of your portfolio to allocate to various investment categories, such as stocks, bonds, cash, and other alternatives.

When stock market returns were above average for an extended period, investors did not have much interest in asset allocation.

Then, the best strategy seemed to be to own only stocks. But now seniors are again looking at asset allocation. Some advantages of an asset allocation strategy include:

- Providing a disciplined approach to diversification -- An asset allocation strategy is another name for diversification, an important strategy for reducing portfolio risk.
- Encouraging long-term investing -- An asset allocation strategy is designed to control your portfolio's long-term makeup. It should not change based on economic conditions or market fluctuations.
- Reducing the risk in your portfolio -- Investments with higher returns typically have higher risk and more volatility in year-to-year returns. Asset allocation combines more aggressive investments with less aggressive ones. This combination can help reduce your portfolio's overall risk.
- Adjusting your portfolio's risk over time -- Your portfolio's risk can be adjusted by changing allocations for the different investments you hold. By anticipating changes in your personal situation, you can make those changes gradually.
- Focusing on the big picture -- Staying focused on your asset allocation strategy will help prevent you from investing in assets that won't help accomplish your goals. Rather than investing in a haphazard manner, it gives you a framework for making investment decision.

### **Senior asset allocation factors**

Before deciding how to allocate your portfolio, you should consider these factors:

- Risk tolerance -- Carefully assess your tolerance for risk so you only invest in assets that you are comfortable with. If you take on too much risk, you may have difficulty carrying out your strategy. Why are you risking this money? It is important to have a reason for taking risks with your money.
- Return expectations -- To design an effective investment strategy, you need to set reasonable return expectations for various investments. While past performance is not a guarantee of future results, reviewing historical rates of return can help you assess your return expectations.
- Time horizon -- The longer your time horizon for investing, the more risk you can typically tolerate in your portfolio.

Investment preferences -- With such a wide variety of investments to choose from, you should understand the basic aspects of each.