Asset Allocation

Asset allocation is the starting point of the investment process. It is the process of divvying-up (or allocating) your money among some - or all - of the asset classes of stocks, bonds, cash and other secondary asset classes such as real estate, natural resources and precious metals. Most of the return pattern of your account is attributable to its asset allocation.

Having an asset allocation that is inconsistent with your investment objective may have negative consequences. For example, an account over-allocated to bonds and cash may result in lost growth potential. Conversely, an account over-allocated to stocks and other growth investments may have you exposed to more risk that you would knowingly assume.

The 'right' asset allocation for you is one that takes into consideration your investment-related goals, your goal's time horizon, your investment objective and how much risk you're willing to assume.

The following example allocations are general guidelines for allocating your money based upon your goal time horizon, the purpose of your account and its investment objective:

'Extremely Low-Risk' Allocation

The allocation is 100% cash and cash equivalents, such as:

- CDs
- Savings
- Money market mutual funds
- Treasury bills

This allocation may generally be considered more appropriate for:

- Investment time horizons less than 3 years
- An investment objective that has no tolerance for risk
- This investment objective may generally be referred to as "Preservation of Principal"

'Low-Risk' Allocation

The allocation range is 30% to 40% 'riskier' growth assets[1] such as:

- Greater percentage allocated to bonds and cash than to riskier growth assets like stocks
- Potentially more volatile than a portfolio with no allocation to growth assets such as stocks[2]
- Returns are generally derived from interest income rather than from dividends and capital appreciation, especially with higher percentage allocations to bonds and cash.

This allocation may generally be considered more appropriate for:

- Investment time horizons between 3 years and 5 years
- An investment objective with a lower tolerance for risk
- This investment objective may generally be referred to as "Conservative Growth and Income."

'Moderate-Risk' Allocation

The allocation range is 40% to 60% 'riskier' growth assets such as:

- An equal or slightly higher percentage allocated to riskier growth assets, such as stocks, than to bonds and cash

- Potentially more volatile than a portfolio with a lower percentage allocation to riskier growth assets
- Returns are generally derived from a mixture of dividends, interest income and capital appreciation

This allocation may generally be considered more appropriate for:

- Investment time horizons between 6 years and 10 years
- An investment objective with moderate tolerance for risk
- This investment objective is called "Moderate Growth and Income"

'Higher-Risk' Allocation

The allocation range is over 60% 'riskier' growth assets such as:

- Higher percentage allocated to growth assets such as more stocks than to bonds and cash
- Potentially more volatile than a portfolio with a lower percentage allocation to riskier growth assets
- Returns are generally derived from capital appreciation rather than from dividends and interest income, especially with higher-percentage allocations to stocks or other riskier assets

This allocation may generally be considered more appropriate for:

- Investment time horizons over 10 years
- An investment objective with a higher tolerance for risk
- This investment objective may generally be referred to as "Long-Term Growth"

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[1] For example, real estate, hard assets such as gold and silver, and natural resources.

[2] Prices of bond mutual funds and ETFs fluctuate in value in response to movement in interest rates and bond credit ratings. In general, when interest rates decline, the prices of existing bonds rise in value. Conversely and in general, when interest rates rise, the prices of existing bonds decline in value. In general, the longer the maturity date, the more the bond is affected by movements in interest rates and bond credit ratings.

Disclaimer

The above asset allocation examples are provided for informational purposes only and do not constitute investment advice. There is no guarantee that any asset allocation example illustrated herein will achieve its objective, generate profits or avoid losses. Diversification does not guarantee investment returns and does not eliminate the risk of significant loss.