Fundamentals of Money Management

The Securities Market

In the prior articles we discussed The Securities Markets which included the stock, bond and mutual fund markets. In this article we will conclude our series with a discussion, “How to Build Your Investment Portfolio.” As you begin investing you must understand Asset Allocation and Diversification.

Building Your Investment Portfolio

Let the Fund Begin!!!

In Building Your Portfolio, Asset Allocation can be simple to complex. The key is to understand what percentage of your assets are in each category of stocks, bonds, real estate and other alternative investments. For the average investor, the pie chart is the easiest way to read how your portfolio is allocated and balanced. It all starts with building your portfolio based upon your Asset Allocation and Diversification Plan. Asset Allocate and Diversify your allocation to reduce exposure to risk.

Asset Allocation

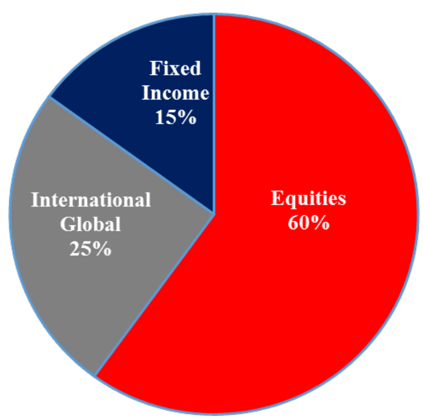
The pie chart below is an example of an Asset Allocation Plan. If you do not have an asset allocation plan, here is where you can begin for formulate your asset allocation strategy. As you can see, Asset Allocation is the driver of your portfolio. Asset Allocation is 90% of the investment returns in a portfolio. Asset Allocation is the most important decision you will make!

Diversification

- Diversification is how you implement the mix of your Asset Allocation. You want to split the portfolio into different investment sectors keeping them within specific ranges as percentages (%). Diversification reduces portfolio risks by spreading investments across the U.S. and International Market spectrum.

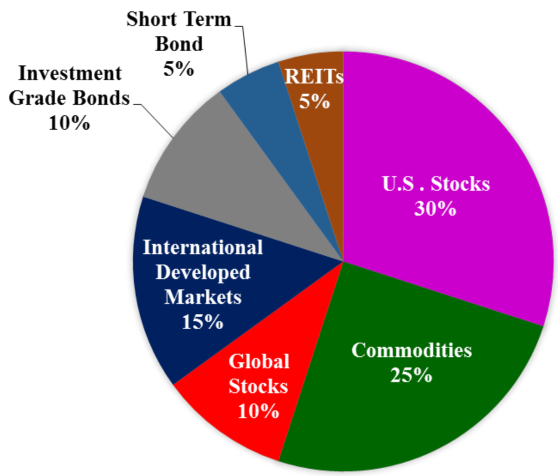
Growth Investment Strategy

Asset Allocation



Growth Investment Strategy

Diversification



As you can see from the Asset Allocation pie chart, asset allocation represent the broad categories for the markets you are investing in. You break up this asset allocation by diversifying those categories into smaller sub-sets. This will reduce your risks.

Review your asset allocation and diversification plan as often as you like. Quarterly is good when you are close to retirement. Annually is a must. Review and rebalance your portfolio on an annual basis so you can stay on course to retirement.

Conclusion, the financial markets are moving targets. Rebalancing your asset allocation and diversification strategy on an annual basis is an important component in planning for your retirement future.

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