QuickCourse

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 assets 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, time horizon and your risk tolerance may have negative consequences. For example, having most of your account in less-risky fixed income investments when your risk tolerance and time horizon suggest having more in riskier growth investments, may result in lower returns and lost growth opportunity. Another example is having most of your account in riskier growth investments when your risk tolerance and investment time horizon suggest having more in less-risky fixed income investments. This may result in volatility that is higher than what you're willing to tolerate, and could also result in losses if you were to panic and sell.

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

Disclaimer

The following asset allocation examples are provided for informational purposes only and do not constitute investment advice or a recommendation to pursue a specific investment strategy. 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.

'Extremely-low risk' Allocation

Example allocation: 100% cash and cash equivalents

- ☐ 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
- ☐ Example investment objective: "Preservation of Principal"

'Lower-risk' Allocation

Example allocation range: 30% to 40% 'riskier' growth assets[1]

- ☐ 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[3]
- ☐ An investment objective with a lower tolerance for risk
- ☐ Example investment objective: "Conservative Growth and Income"

'Moderate-risk' Allocation

Example allocation range: 40% to 60% 'riskier' growth assets

- ☐ 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[3]
- ☐ An investment objective with moderate tolerance for risk
- ☐ Example investment objective: "Moderate Growth and Income"

'Higher-risk' Allocation

Example allocation range: > 60% 'riskier' growth assets

- ☐ Higher percentage allocated to growth assets like 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
- ☐ Example investment objective: "Long Term Growth"

[1] For example real estate, hard assets e.g., 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 credit ratings.

[3] For investment time horizons between 3 and 5 years, it may be appropriate to allocate a portion of your funds to stocks and other growth assets depending upon your investment objective and your willingness to assume the potential risk of a multiple-year period of negative stock returns. Historically, the potential risk of

a negative return on stocks for a full holding period is greater for holding periods between 3 years and 5 years than it is for holding periods between 6 years and 10 years.