Allocating Your Money for Retirement Income Growth

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How to invest your money can be one of the most necessary and complex jobs you will venture to undertake. Whether you do it yourself or hire an investment advisor, it can literally be the difference between financial success or failure. Choosing which sectors to invest in and how much to invest - creating a financial plan - is what is otherwise known as *asset allocation*. Finding a suitable asset allocation for any given investor can depend on various factors and should be the product of an assessment of an investor's needs and objectives.

Habitually, many investment advisors use a pre-defined, cookie cutter approach to asset allocation. They issue the traditional pie chart, along with the phrase *"hold this for the long term"* as they cite 60 years of statistics to validate this concept. One would hope with the 60 years of statistics that Wall Street experts love to refer to, your money would grow. In theory it sounds great, but in reality, it lackluster. The average person has approximately 10-20 years to accumulate enough money before they need to draw on it for income.

What if you were planning to retire in 2010 and were fully invested in 2000 when the tech bubble burst? You suffered very large losses and were set back. Then just when you recoup all your losses the sub-prime crisis antagonizes your goals all over again. How much does that set your retirement goals back? *What if you sustained a loss so large that you may not be able to retire?*

Utilizing a tactical allocation one may improve performance while experiencing smaller draw downs during market crashes. Tactical allocation seeks to adjust your portfolio to market changes; not leave it static.

Here is how it works. Strategic asset allocation (which is the traditional approach) says, as an example, to invest 40% in to common stocks. Tactical asset allocation asks "what kind of stocks? Large Cap, Small Cap, International etc". To illustrate the point from 1/1/2000 through 11/8/2010 Large Cap stocks as measured by the S&P 500 Index has lost -16.74% vs. The S&P 600 Small Cap Index which has gained +97.78%! Blending strategic risk-driven allocation with tactical allocation could have offered incremental benefit.

So here are a few simple rules for allocating your money:

- Keep it simple. Invest in asset classes you understand. The basic asset classes: stocks, bonds, commodities, real estate, money markets and mutual funds provide plenty of opportunity to construct a dynamic portfolio – one which articulates your individual needs and historically, benefits one's goals.
- Follow the capital wave. If Small companies are strong buy those. If international is strong, buy that. Be dynamic; don't hold an asset class that is out of favor because of the misguided notion that buy and hold exceeds expectations.
- Adapt - be nimble - to changes in the economy. There is a season for sectors and stocks, just like fruits and vegetables. Using both fundamental and technical research, you will be able to follow trends and more importantly, a change in trend.
- Stay alert. For example, look at the paradigm shift our society is experiencing from mobile phone usage. Which investments benefited? As trends develop, observing the latest fad your children are raving about (and begging you to buy for them), how you can invest?
- Avoid over diversification. The old expression "too much of a good thing is bad for you" applies here as well. If you own too many investments you will dilute your growth and the momentum to achieve your goals. We all want our investments to work out as planned; reality dictates that some will not.
- Decide how much you will risk in any one investment. If that risk level is hit, follow through by eliminating the position from your portfolio.
- Observe the benefit of being proactive, the ability to adapt as the market morphs and changes. The ability to manage risk in real time. Here, a simple cliché carries benefit, too. *Have a plan B.* We all want our investments to work out as planned but reality dictates that some won't. Decide how much you will risk in any one investment and then if that risk level is hit follow through by eliminating it from your portfolio. Smaller losses require less work to recoup and will not drag your whole portfolio down.
- Learn how to be DEFENSIVE when appropriate. Realistically, every growth cycle is followed by a contraction cycle. You can't expect to make money if you are invested for a Bull market when you are in a Bear market. The average stock lost 39% of value in 2008 and took almost two years to recover.
- Developing an action plan is paramount. Contact your advisor. Does a plan beyond strategic allocation exist? What about a risk management plan? Has your portfolio been tactically reviewed? Is it relatively strong compared to where it could be?

As always before you make any changes to your program you must do your homework. Speak with your advisors, and including your CPA to discuss any taxable events that may impact the adoption of a new strategy. Most importantly, remember it is RISK MANAGEMENT first, then GROWTH & INCOME.