

Look Before You Leap

If stocks are hot and bonds are not, shouldn't you be following the investing crowd by culling bond funds out of your life and betting on a resurgent stock market?

The answer to that question is: Absolutely not! One of the worst mistakes you can make as an investor is to keep moving your money around in response to every change in the direction of the stock market. Instead, pick an asset allocation among stocks, bonds and cash that is appropriate for your age, goals and risk tolerance. Then stick with that allocation for the long term; make your purchases and sales to keep your portfolio in line with your target asset allocation. Modify your allocation when something big in your life changes—or to take an increasingly conservative stance as you get older.

Remember that stock represents shares of ownership in a company. Your ownership is commonly referred to as having “equity” in that company. A bond is a loan issued to a government or corporation that promises to pay a stated interest rate for a specific period of time and to repay the face value of the loan in full on a specific date. Bond values usually have an inverse relationship with changes in the interest rates.

Wouldn't It Be Lovely?

Trying to get ahead of every twist and turn in the stock market is very risky. It requires that you always be able to buy stock funds when prices are as low as they will get—and sell them when their prices are as high as they can go.

Reality Bites ... You

The trouble with trying to follow such a strategy is that no one rings a bell when the stock market changes course. In the short term, both the stock and bond markets can be so volatile that trying to anticipate what comes next is virtually impossible.

What's To Be Done?

Your best approach—this year and every year—is to forget about trying to outguess the markets. Instead, determine what you think is your best asset allocation strategy and stick to it, no matter what is happening on Wall Street. At least some of your investments are likely to pay off each year and be rewarding over the long-term.

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