

## Charting Your Financial Course

**Before setting out to sea**, prudent sailors chart a course designed to avoid potential hazards and reach port safely. They check their chart regularly during the voyage to make sure their course is still true.

Prudent investors do the same thing and the chart they use to reach their financial goals as safely as possible may be based on a process called asset allocation. Asset allocation is the way you divide your money among the three basic asset classes: **stock**, **fixed-income** and **cash**. The degree of risk and potential return of your retirement account depends on the combination of these asset classes you choose.

An allocation of all stock funds may have the highest potential long-term return, but will give you the rockiest ride. An all-bond-fund allocation probably won't fluctuate as dramatically, but its return will likely be lower, and your account may not grow enough to outpace inflation over time. If you choose an all-cash-fund allocation you'll take the smoothest trip, but you'll face a similar inflation risk as with bond funds and your long-term return may be even lower.

But if you combine these three assets, you may potentially reduce your risk and get more balanced returns at the same time. That's because asset classes usually perform differently from each other under the same economic conditions. A good mix increases the chances that you'll own at least one investment that's sailing smoothly.

To figure out the right allocation for you, determine your risk tolerance, time horizon and the investment return you need to achieve your retirement goals. Your best allocation is an investment mix that will get you where you want to go without making you seasick.

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