

## One Rule, Three Tools

**We don't know what the market will do** tomorrow or next year; but we do know that over periods of 20 years or more, stock prices historically have risen faster than inflation,<sup>1</sup> although past performance is no guarantee of future results. This suggests that all long-term investment plans should most likely include stocks. And since you can't forecast bull or bear markets, the solution may be a portfolio diversified enough to weather both up and down cycles.

### Tool up

Start with asset allocation: an investment combination that fits *you*. The optimal mix is one that's aggressive enough to outpace inflation, but stable enough to let you sleep at night. Many professional fund managers have long favored a 60/40 allocation of stocks to bonds. As a retirement-savings plan investor, you may want to include a cash allocation and consider, if appropriate for you, a 60/35/5 mix of stocks, bonds and cash.

Your second tool is diversification: a mix of different types of stock and bond funds. Your stock allocation, for example, may include domestic and international; large- and small-company; growth and value funds. On the bond side, you could own short-, intermediate- and long-term bond funds. When you diversify, aim for a mix of investments that behave differently from each other, so that at any given time, some may perform better than others.

The third tool is dollar-cost averaging. When you invest a fixed amount at regular intervals—for instance, making regular contributions to your retirement-savings plan account—you may be able to take advantage of buying opportunities: As the math will show, you'll buy more shares when prices are low and fewer shares when prices are high. Over years, that technique may pay off handsomely by helping to lower your average purchase price. Dollar-cost averaging does not assure a profit, nor does it protect against loss in declining markets. To be effective, there must be a continuous investment regardless of fluctuating price levels. Investors should consider their ability to continue to make purchases through periods of low price levels.

These time-tested strategies make emotional as well as financial sense: Like a sensible coat and a good pair of boots in a winter storm, a sound investment strategy and a portfolio that truly fits your needs may offer the comfort you need in bad financial weather.

<sup>1</sup> *Stocks, Bonds, Bills, and Inflation 2010 Yearbook*, Ibbotson Associates