

Starting The Journey

Determining your asset allocation strategy is the key when you begin investing in your workplace retirement plan. We asked Registered Financial Consultant and former finance editor of *Business Week*, George Finnegan, how he advises people who are starting out on this financial journey.

"People ask me why they should bother with asset allocation if their retirement is a long way off", Finnegan says. "To answer that, I pose this question: Say 24 years ago, two people asked me how to invest \$25,000. Today, one of them has \$100,000 and the other one has \$400,000. Which investor would you rather be?"

The difference in these hypothetical returns, Finnegan explains, is the difference between funds that produced a 6% return over 24 years and funds that produced a 12% return.* But you shouldn't plot a retirement saving investment strategy based only on potential returns because funds with the potential for the highest returns also involve taking the most risk and that may make you queasy.

Your asset-allocation decisions should hinge on balancing the hope of greater financial rewards against your comfort with risk, the investment advisor says. The best rule I know for determining this is to figure out how much the stock market would have to drop to scare you away from stock funds. Multiply that percentage by two, and you have a good gauge of what percent of your retirement savings assets should be in stock funds. For example, if you feel that a stock-market drop of 20% is the most you can stomach, invest no more than 40% in stock funds.

Finnegan advises that if you have several choices of stock funds, it usually pays to invest in each one, because different types of stock funds tend to move in different cycles. Most studies show more balanced returns using this strategy. And they definitely show reduced overall risk. Whatever you decide, recommends Finnegan, review your asset allocation strategy at least annually. "Nuisance? No, reassurance." He concludes. "You work hard for your money; make sure it's working hard for you."

* These examples are for illustrative purposes only, and are not indicative of the performance of any particular fund. Past performance is not a guarantee of future results.

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