

Do the Math, Follow a Path

Decide on your mix—and how you want to achieve it

Rebalancing is easy, except for the first step: having to take a hard look at your account statements more than three years into a bear market. Think of it as spring cleaning after a long hard winter.

Where do you stand?

First, figure out your current investment mix. Group your investments into three categories: stock, bond, and cash or money market funds. Your asset allocation is the percentage of each of these categories in your total account. For example, let's say you have \$100,000 in your account now. If you have \$40,000 in stock funds, \$50,000 in bond funds and \$10,000 in cash, your current allocation is 40/50/10. Is this a good mix for you now? Consider what mix would be the best fit for your age, risk tolerance and time horizon.

Think long, long term

Your true time horizon isn't your retirement date—it's your life expectancy. A healthy person in his or her 60s can expect to live another 20 or 30 years, so even if you're nearing retirement, you may need some stock investments to potentially outpace inflation. Remember, if inflation averages 3% a year, over two decades the value of a dollar will fall almost 50%.

Consider the risks

Consider both the average annual return you need to reach your goal and your tolerance for risk along the way.

Make it happen

Let's say you opt for a 60/35/5 mix of stocks, bonds and cash investments. To achieve it, shift money from your bond and cash holdings into your stock fund. You can do that gradually by leaving your current assets alone but redirecting your regular contributions; or you can transfer money among the funds in a single transaction and adjust future contributions to maintain the new mix.

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