

Setting Up Your Asset Allocation Strategy

Asset allocation means finding the right balance of stocks, bonds and cash in your retirement plan to help you reach your long-term financial objectives. Investing in different kinds of assets may also help you reduce risk and take advantage of various market cycles.

Identify goals

While you may be investing for a wide range of goals, it's likely that your financial objectives fall into three broad categories: growing your assets, generating income, and protecting your investments. Whether saving for retirement or for a child's education, consider investing in stocks for their long-term growth potential. And if you're setting aside money that you'll need to withdraw soon, such as for a down payment on a house, consider investing in cash equivalents like stable value funds for their stability and potential to protect your investment.

Create a retirement timeline

How much time you have until retirement is also an important factor to consider when you're determining your asset allocation strategy. Because stocks typically have the most market volatility, meaning that they experience more price fluctuation than bonds over time, they generally should be considered long-term investments. For example, if you need to withdraw part of an investment in stocks while the market is down, you'll be taking a loss. In contrast, bonds typically offer less volatility than stocks. But with maturities of between two and 10 years, bonds, as medium-term investments, may also experience price fluctuations. Cash equivalents offer the most stability, making them appropriate as short-term investments when you may need to withdraw money quickly.

Rebalance to stay on track

Once you've decided on an asset allocation strategy, it's important to review it from time to time to make sure it's still on the right track. You may need to rebalance your retirement plan if your goals or personal circumstances change, or if market performance has caused certain asset classes to become over-weighted in your plan as you get closer to retirement. For example, if the stock market has gone up while the bond market has stayed flat, you may need to sell a portion of your stock holdings and re-invest the money in bonds to maintain your target allocation. It's a good idea to review your account at least once a year to see if you need to rebalance.

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