

# Asset allocation

## Find your optimal mix of investment risk and return



### An idea so good it won a Nobel Prize

Strategic asset allocation might be the single most important factor in your retirement investment plan. The idea began in 1952 when economist Harry Markowitz scientifically demonstrated that ...

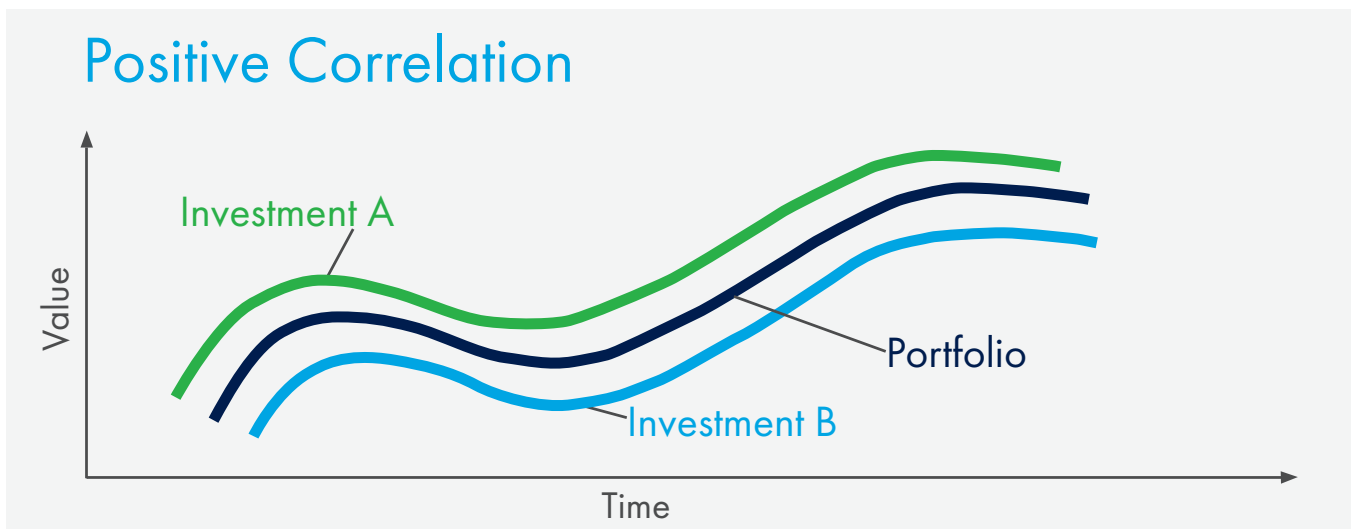
- The risk of any investment should not be viewed in isolation, but instead how that investment contributes to overall portfolio risk
- Optimal asset allocation for a given level of expected risk or return can be calculated using optimization formulas

These formulas help you reduce risk by combining investments with dissimilar performance characteristics, the result being an investment mix with combined investments that carry less overall risk than the individual investments in the mix.

While it is a proven investment tool, please bear in mind that asset allocation does not ensure a profit or protect against market loss. The goal is to achieve the highest expected return for a given level of risk.

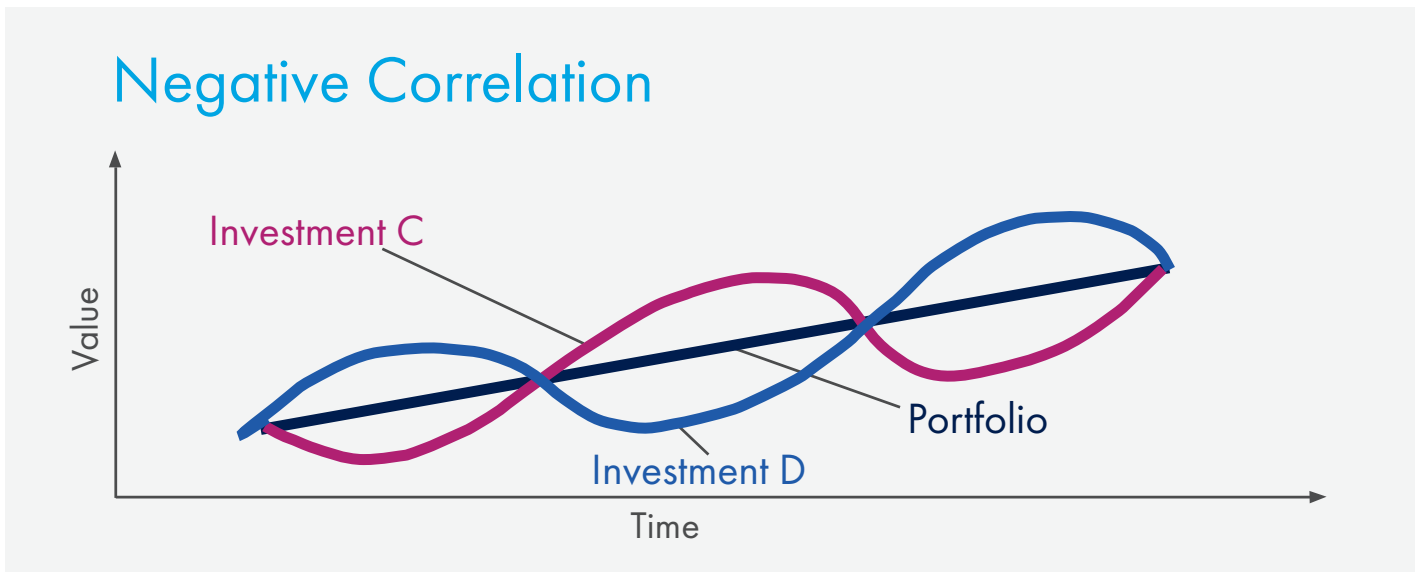
### Why dissimilar performance characteristics matter

The theory says if you have one stock that “zigs,” you should have another stock that “zags.” You see, each investment class and category has definite behavior characteristics. If two investments behave the same, they are said to be positively correlated (see graph). That can be great when both investments are doing well, but scary when they’re not.



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Choosing positively correlated investments could take you on a roller coaster ride in a volatile market. But note in the second graph how investing in stocks that behave differently from one another (negative correlation) can help to smooth a volatile market.



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