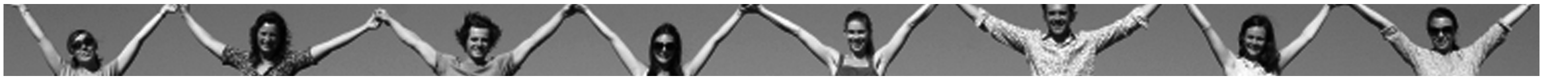
Wealth Planning Made Easy
Chad Danowsky
800-815-3130
ask@wealthplanningmadeeasy.com
www.wealthplanningmadeeasy.com

Designing an Investment Portfolio



Designing an Investment Portfolio

What is meant by "designing an investment portfolio"?

Designing an investment portfolio is the process of determining which investment vehicles will help you pursue your personal goals. First, you'll want to identify the personal investment goals that you would like to fulfill. These goals will be closely tied to a number of factors, such as liquidity needs, time horizon, and risk tolerance.

Second, match your goals to the proper investments, commonly referred to as asset allocation. This will result in a portfolio design suited to your investment needs. Once you have settled on a portfolio design, you can properly construct an investment policy, implement the portfolio design, and manage your portfolio.

Identify goals

One of the first steps in designing an investment portfolio is to identify your personal investment goals. Are you saving up to buy a house? Perhaps you would like to start planning for your child's college education, or maybe you want a head start on saving for retirement. The goals you would like to achieve through investing will depend upon factors such as your liquidity needs, time horizon, and risk tolerance.

Liquidity needs

Liquidity usually refers to how fast you can convert your investments into cash (or its equivalent). Real estate investments, for example, tend to be very illiquid. By comparison, publicly traded stocks tend to be fairly liquid. Liquidity needs refers to when you will actually need the cash from your portfolio.

For example, if you are saving money for retirement 30 years in the future, your near-term needs may not be very large. However, if your child is starting college in a year, you will obviously need some or all of the assets in your portfolio within a very short time. As a result, you may want in your portfolio the type of investments that can easily be converted into cash.

Time horizon

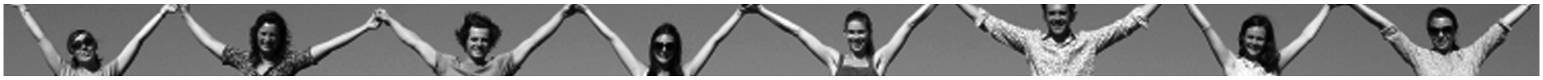
A second factor, which goes hand in hand with investment goals, is your investment time horizon. To find out your investment time horizon, determine when you will need the money. Are you investing for your young child's college education? Are you investing money for retirement 30 years in the future? Are you investing to buy a house in 3 years? The length of time that you plan to remain in a particular investment vehicle is referred to as your investment planning time horizon and will have a significant impact on the types of investments that you purchase.

The general rule is: The longer your time horizon, the more risky (and potentially more lucrative) investments you can make. Many financial advisors believe that a longer time horizon gives you more time to ride out any market fluctuations. Therefore, investments such as common stocks or real estate may be appropriate for you if you have a long time horizon. On the other hand, if your time horizon is very short, you will probably want to concentrate your investments in less risky vehicles, such as money market funds, Treasury bills, and other fairly conservative investments. With a short time horizon, you simply don't have time to recoup losses.

Risk tolerance

The definition of risk tolerance is twofold. It describes an investor's capacity for risk (i.e., how much money can he or she afford to lose). It also describes just how comfortable an investor is with risk. This depends on many factors--objectives and goals, life stage, personality, knowledge, and investment experience. Your risk tolerance will play a major role in the types of investments you choose for your portfolio.

In order to determine your risk tolerance, you might want to start by considering some basic questions. What type of investor are you? Are you comfortable with risk? In other words, given the unpredictability of market fluctuations, how much of a portfolio drop could you handle without hitting the panic button? Maybe you can tolerate a greater amount of risk in the hope that you'll make out with a better return on your investment. Or, are you the type of person who is going to get nervous every time there is a market drop? What are your investment goals? Are you investing so that you can buy a house in a couple of years, or are you planning



for your toddler's college education? By answering these types of questions, you will have a general idea of your tolerance and capacity for risk.

Asset allocation

Once you have determined your investment goals, the next step in designing your portfolio is to select the investments (e.g., stocks, bonds, and cash alternatives) that will help you meet your goals, commonly referred to as asset allocation. For example, if you are creating an investment portfolio to save for your retirement 30 years in the future, you may want to select investments that have the potential for significant long-term gain (e.g., growth stocks). Conversely, if you are creating an investment portfolio to purchase a house in 3 years, you may want to fund the portfolio with more conservative investments such as Treasury bills and money market mutual funds.

The underlying principle of asset allocation is that different categories of investments have shown different rates of return and different levels of risk and price volatility over time. By diversifying your investments over different asset classes, you should minimize risk and volatility.

Tip: *The manner in which you practice asset allocation today may not be appropriate in the future, as a result of economic fluctuations and/or changes in your investment objectives. In addition, any growth or decline within asset classes may cause your asset allocation ratios to shift. As a result, it is important in managing your investment portfolio to monitor your asset allocation periodically and to rebalance your portfolio as needed.*

IMPORTANT DISCLOSURES Broadridge Investor Communication Solutions, Inc. does not provide investment, tax, legal, or retirement advice or recommendations. The information presented here is not specific to any individual's personal circumstances. To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances. These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable — we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.

Wealth Planning Made Easy

Wealth Planning Made Easy
Chad Danowsky
800-815-3130
ask@wealthplanningmadeeasy.com
www.wealthplanningmadeeasy.com