Asset Allocation: Composing Your Financial Symphony

Any classical music composer will tell you that creating a symphony requires a delicate balance of sounds, melodies, and harmonies. Each instrument creates unique sounds and vibrations, which, when heard alone, may not be particularly compelling. However, when the orchestra plays in unison, the end result can be a masterful composition. Hence, the true art of creating a masterpiece is arranging melodies and blending sounds. In this respect, composers and investors share some similarities. Successful investing typically combines a number of different investments in order to create a portfolio that is “in tune” with the investor’s goals and objectives. It’s no coincidence that such a technique is the foundation for one of the most basic financial investment principles—**asset allocation**.

Asset allocation is the process of attempting to decrease financial risk by investing monies in different asset categories. To effectively diversify, consider investing in at least three different asset classes. The major asset categories include stocks, bonds, and cash (saving and checking accounts, certificates of deposit, money market accounts, and Treasury securities). Mutual funds often represent a combination of asset categories, but they may consist of just one asset category, such as a bond fund.

Overall, asset allocation may help reduce investment risk while achieving potentially higher returns. That’s because different categories of investments react differently to changes in the economy. For example, while stock values might be plummeting, bond values may be rising or remaining level. With a well-diversified portfolio, you can ultimately come to own many asset categories, thus potentially reducing the impact market volatility may have on your total investments.

Creating Your Own Ensemble

Before deciding where to invest, you should review your personal financial goals and ask yourself the following questions:

- What are my goals for my money?
- How can I keep inflation from eroding my purchasing power?
- How much risk am I willing to take with my money?
- Will I be comfortable holding investments with daily price fluctuations?

Many investors use asset allocation as the foundation of their portfolios. However, it is essential to realize that this strategy does not *eliminate* risk or *guarantee* a profitable investment return.

To reduce risk, your financial portfolio should reflect your own personal financial goals and investment style. Among other factors, your age, income, expenses, family responsibilities, and risk tolerance can influence how you should build your portfolio.

Arranging a Masterpiece

One of the biggest challenges facing the average investor is deciding how to allocate personal savings or retirement assets. Naturally, most individuals hope to create an investment portfolio that is consistent with their personal objectives and risk tolerance level. However, the lure of potentially high rates of return can easily skew an investor's objectivity, resulting in unrealistic expectations and unnecessary exposure to risk. Thus, it is important to adhere to a *diversified* investment strategy that conforms with your short- and long-range goals. With a little bit of patience, *your* future may bring music to your ears.

Source: Liberty Publishing