

Asset Allocation and Diversification

The ingredients to a healthy retirement income!

Asset allocation refers to how you mix your investments across the various types of funds or asset classes (e.g., the mix of stocks, bonds and cash in your portfolio). It might surprise you to know that your asset allocation is what ultimately drives the earnings your portfolio achieves!

▶ Asset Allocation Drives Return

Research shows that how you allocate your investments across asset classes determines more than 90% of your investment return. In other words, it's more important to have the right mix of stocks, bonds and cash than to pick Stock Fund A over Stock Fund B. The specific investments you choose, and when you buy and sell – not to mention plain 'ole luck – don't have very much to do with overall performance. Rather, these factors are part of the investment manager's job.

▶ Diversification Lowers Risk

Asset allocation not only drives performance, it also helps you reduce risk. You know the old saying, "don't put all your eggs in one basket?" Well, investing in different funds within each asset class is called diversification. **This is the single most important thing you can do to manage investment risk.** Diversifying also increases likelihood of achieving long-term goals and enhances potential for long-term gain.



▶ Diversification among Asset Classes

"Mixing" your portfolio across asset classes makes you less dependent on performance and risk of any single asset class. Effective diversification requires combining assets that behave differently under various economic or market conditions. Moreover, investing in assets that have dissimilar return behavior may insulate your portfolio from major downswings.

▶ Investing for the Long-Term

Remember that for most of us, investing for retirement is a long-term proposition. So don't overreact to the short-term fluctuations in the market. Stocks go up and down but over the long term, they provide rewards for accepting this inherent risk. Next, don't forget to rebalance your portfolio! Reassess your situation periodically to determine if personal circumstances warrant a shift in your approach.

For more information on asset allocation and diversification, please contact our plan consultants, Hub International at 401khelp@hubinternational.com.