Asset Allocation – It Is All About You

In order to determine if your portfolio is successful, it is necessary for you to have clearly thought out your unique investment goals. In establishing these goals many investors are tempted to look to the markets first. If you were to sit down with your advisor to establish your Investment Policy Statement at a time when markets were in an upswing, would this influence your mindset? If you read headlines about an asset sector with blockbuster gains would it sway you even more? Or what if the market had a steep decline three weeks after you set your goals – would you panic? The headlines that we read and the current market conditions, like it or not, hold sway over our emotions. Your investment goals should be all about you and your long-term objectives and not whether or not the market is up or down this quarter. Blocking out this market noise and making rational decisions based on your appetite for risk and your long-term goals is essential – and we are here to help.

To begin with, a key decision in developing your investment plan is your asset allocation. Asset allocation involves determining which mix of asset categories (traditionally stocks, bonds, cash equivalents) to hold in your portfolio. This is a very personal decision because the asset allocation that works best for you at any given point in your life will depend mainly on your time horizon and your tolerance for risk. Your assets should be allocated in the appropriate weights to the appropriate classes so that you can be confident of achieving your objectives, while controlling uncertainty to the extent possible. This is achieved by recognizing the potential risks and returns of individual asset classes, and by capturing the benefits of diversification that are gained from holding a broad range of assets.

At ScotiaMcLeod, the Pinnacle and Summit Programs were designed to provide you with multiple sources of asset class diversification. Asset allocation is a proven method to manage risk because portfolios with investments spread over a diverse set of asset classes perform better and pose less risk than a portfolio concentrated in an individual asset type. This is because, over time, asset classes do not move in tandem and, each year, there may a different top performer. Although allocation reduces risk, it does not necessarily cause the expected returns to suffer. In fact, by carefully weighting asset classes and by choosing money manager's that have complementary styles, it is possible to enhance returns.

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To ensure that your asset allocation plan continues to meet its goals, we reevaluate it regularly. This reevaluation is about you and not the current market sentiment. Key considerations here include whether you have had a major change in your life, received an unexpected inheritance or sold your business as well as whether you want to consider early retirement or if your goals have changed? Any adjustments to asset allocation are about your goals and not about making unplanned short-term adjustments to your allocation in an attempt to profit from temporary changes in the market.

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With diversification in your portfolio, it may be necessary, over time, to bring your portfolio back to your original mix. This is because over time some of your investments will grow faster than others, causing some of your asset classes to become out of alignment with your investment goals. Rebalancing will ensure that your portfolio does not overemphasize one or more asset categories and that it will be returned to a comfortable level of risk.

Rebalancing back to your asset allocation allows you to stick to your plan and provides your portfolio with a valuable risk management tool, especially in times of market uncertainty or changes in world events. Adhering to your plan with the confidence that you have an asset allocation that is right for you will also allow your portfolio to smooth out the bumps in the road and make the gains necessary to get you to your destination.

To discuss your current asset allocation strategy, please contact us.

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