BUILDING BLOCKS FOR RETIREMENT

Revisiting Your Portfolio

Changing Your Investments As You Change

Taking a closer look at your portfolio every so often— especially how much money you've allocated to different assets like stocks and bonds—is a very smart idea. It doesn't have to be done each month—once or twice a year is more appropriate—but given the ups and downs of the markets, a periodic survey of your retirement portfolio is important.

For starters, you should make sure that no one investment category or type of fund has grown to dominate your portfolio. By having a broad mix of assets, you can help protect yourself from volatility and avoid becoming overly dependent on any one kind of investment. But because the market is always fluctuating, it's easy for a single type of asset to overwhelm a portfolio without your noticing.

Once you have reviewed your portfolio, what kind of approach to diversification should you take? Although you can still lose money in a diversified portfolio, financial advisors say that the smartest strategy for long-term investors is a mix of stocks and bonds. You might want to include international equities as well as U.S. stocks so you can benefit if overseas stock markets outperform domestic ones. You may wish to think about investing in small, medium and large companies, both domestic and international, so that you're covered no matter which portion of the market prospers. The bond or fixed income portion of your asset allocation is important too, because the steady returns of bonds can compensate for a stock slowdown.

Most importantly, periodically look over your portfolio to make sure it continues to reflect the allocation you've mapped out to meet your retirement goals. How you invest depends in large part on your personal situation; the time you have until retirement, the amount of risk you're willing to take, whether you have other sources of retirement income, and any special needs you or your dependents may have. As you make investment decisions, keep in mind that your ability to accept risk will probably change as the years pass. And while your investments can change as your needs change, you may want to avoid trying to "time" the markets in reaction to the latest financial news. After all, even professional investors find it hard to figure out exactly when to buy low and sell high.

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