BUILDING BLOCKS FOR RETIREMENT

Asset Allocation

Asset Allocation: Make It The Secret of Your Success

Deciding how to invest your retirement savings is a big decision. Creating an asset allocation strategy can help you focus your efforts more easily. Asset allocation is the way in which you divide your money among different types of investments to meet your goals. Your time frames, objectives, and attitudes toward risk will help determine the types of investments — or asset classes — that you select, and how you weight them.

Asset allocation decisions are among the most important that you, as a retirement plan investor, will make. Studies have shown that asset allocation is responsible for as much as 90% of the variability of long-term returns produced by professional portfolio managers.

When determining how to allocate your portfolio, consider the following asset classes:

Stocks carry a high level of risk because their value can decline in the short-term. In the long-term, however, stocks historically have outpaced inflation and have produced higher results than other types of assets.

Bonds typically have less short-term risk than stocks because they experience fewer price fluctuations. Over the long-term, bonds typically produce lower returns in comparison with stocks.

Stable value investments carry very low risk and are considered among the most stable of all asset classes. They do not have the same potential that stocks do to outpace inflation over the long-term.

How Asset Allocation Works

Retirement plan investors typically allocate their assets differently depending on age and life circumstances. For example, a 35-year-old working woman planning to retire in 30 years may construct her portfolio with 80% stocks and 20% bonds. She will have years to ride out fluctuations in the stock market, but also is potentially reducing short-term risk by including bonds in her portfolio. When she reaches age 55, this investor may decide to focus less on growth and more on preserving assets in anticipation of retirement. She may rebalance her portfolio and allocate more of her assets to bonds and stable value investments. When this investor actually retires, she may shift a percentage of her assets from stable value investments to dividend-paying stocks to earn income.*

Annual Review

Many investment professionals suggest reviewing the assets within your retirement plan annually to make sure that you are on target to achieving your goals. This can be especially important when a significant life event — such as marriage, the birth of a child, divorce, or retirement — changes your financial picture. So don't be confused by the wealth of choices available within your retirement plan. Creating an asset allocation strategy can help you focus your efforts and meet your objectives in the years ahead.

* Allocations are presented only as examples and are not intended as investment advice. Please consult a financial advisor if you have any questions about how these examples apply to your situation.

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701 Westchester Ave, Suite 320E, White Plains, New York, 10604