

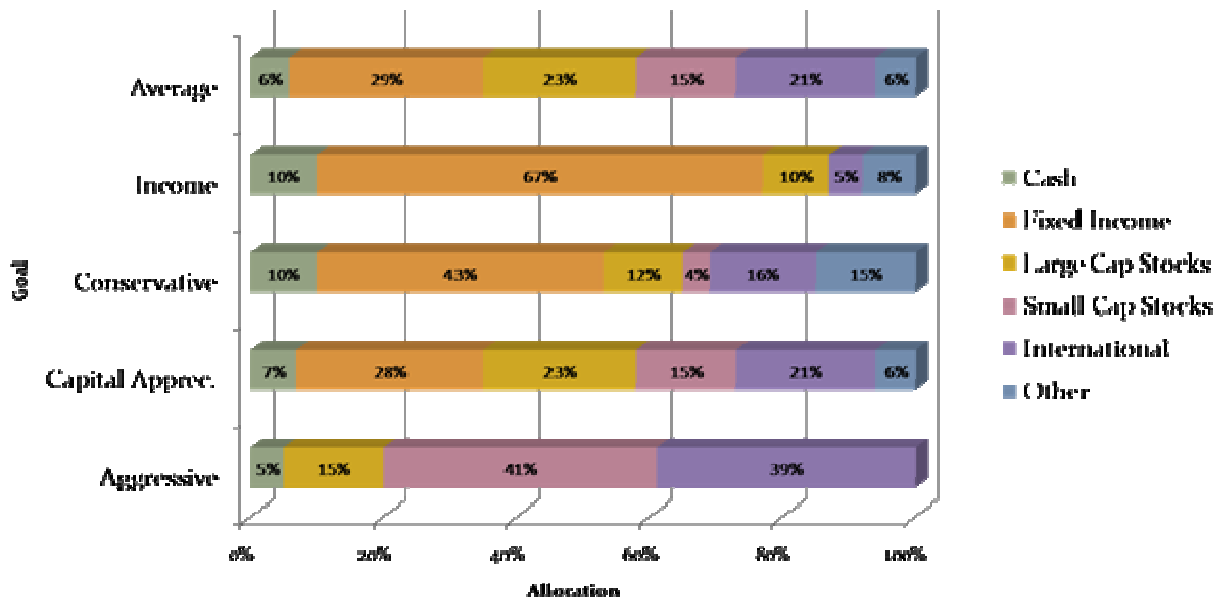
Office for Financial Success – Financial Tip of the Week
A service of the Personal Financial Planning Department
College of Human Environmental Sciences
University of Missouri-Columbia
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[Invest Mess](#)

We've heard President Obama speech to Congress, as well as the echoes and twists of the pundits, and we know what to do next. Or, do we? Those of you that read this on a weekly basis know that, when it comes to investments, I'm a big fan of discipline. Unfortunately, "staying the course" has cost me a lot of money over the past few months but I've not given up faith in our economic system or our ability to rise from this setback, albeit a huge setback. The question remains, what should we do now? You know my answer, we should follow our plan and make adjustments to that plan, if we find adjustments to be necessary.

A lot is written about investments. In fact, turn on CNBC for a few minutes – through a commercial break – and you will no doubt learn of a company, or two, that holds themselves out to be your financial savior, your retirement beacon, or your low cost provider of investment transactions. I have nothing against these firms or the people that work for them. Many people need advice and counsel and I firmly believe that there is not a single investment product that is wrong, or one that is right, for everybody.

We hear a lot these days about passive investing, where one places their money in index mutual funds, or funds that mimic index mutual funds, that are low cost. Many mutual fund companies have these. You, however, may have a 401k or 403b plan at work that limits your choices to mutual funds that have been picked by the plan advisor. Even so, these plans often have mutual funds in each of the following categories: cash, fixed income (bonds), large capitalized stocks, small capitalized stocks, international, and another category such as a real estate investment trust, gold, commodities, or other choice. You may, however, not know how you should diversify your investments across each of these categories and, I'm willing to bet, you probably haven't checked to see if your original allocations continue to hold as one category may have grown, while another has decreased. (Most likely, over the past year, all of them have decreased but one or more may have decreased less than the others.) That is, of course, not true if your plan automatically rebalances to meet the targets on a monthly or quarterly basis.



The above are some suggested allocations for one’s total portfolio, depending on one’s investment goals. It is common practice for financial planners to advise people to be more aggressive when they are younger and less aggressive when they are older. If we take the categories above, and assign ages to them, we might say that an Income portfolio would be appropriate for someone in retirement, the Conservative portfolio would be appropriate for someone between the ages of 45 and 65, the Capital Appreciation portfolio for someone 35 to 45 years old, while the Aggressive portfolio, for the youngest employees with the longest time horizons.

As an example, across the total portfolio of financial assets, and using the Conservative portfolio as the example, one could have 10% in cash, 43% in fixed income government and corporate bonds, 12% in large cap stocks, 4% in small cap stocks, 16% in international stocks, and 15% in other assets such as commodities, gold, and real estate investments.

What this approach does is keep you invested in each of the broad categories of investments, while reducing the risk of your portfolio as you age. Why? Well (I hate to break the news to you), that is due to the fact that the older you become the less time you have to recover from large losses. On the other hand, a long period of time prior to retirement for a young person, allows them to wait for markets to recover. Another strong point of this method is that by rebalancing to our targets, it forces us to sell at a high price and buy at a low price, without ever leaving our position in total.

In general, most people agree that markets are pretty efficient. What that means is that it is very difficult to “beat the market” and it is real easy to “lag the market”. The best way to avoid the latter and to find *financial success* is to “match the market”. The easiest way to do this is to use

index mutual funds that replicate sectors of the market. Much has been written about this but, before I write a book instead of a tip, let me refer you the following three books on the subject.

Ellis, Charles D., *Winning the Loser's Game*

Solin, Daniel R., *The Smartest Investment Book You'll Ever Read*

Swedroe, Larry, *Wise Investing Made Simple*

- Robert O. Weagley, Ph.D., CFP(r)

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