Petrocelli
FINANCIAL SERVICES LLC

Asset Allocation

Determining Your Financial Balance

Even the most seasoned investor can become unnerved by the volatility of the market. But there is a way to help reduce risk. It's called asset allocation. Here's how it works.

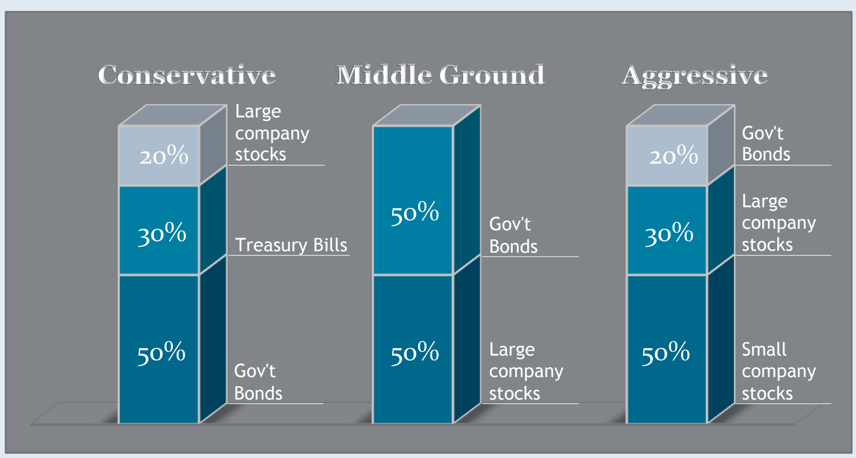
What is Asset Allocation?

You've heard the phrase, "don't put all your eggs in one basket?" Well, that's the basic idea behind investment diversification — a key component of asset allocation. Diversification means spreading your assets across a variety of different investments. It is perhaps the single most important rule you can follow when investing because it helps reduce your overall risk. You can diversify by industry, sector, geographic region or asset category. Diversifying by asset category is called asset allocation.

Asset allocation builds on the basic principle of diversification. A time-tested personal investment strategy, asset allocation involves investing

Diversification in Practice—A Look At Managing Risk

In the chart below, a **conservative** investor might choose a portfolio that consists of 50% government bonds, 30% Treasury Bills and 20% large-company stocks, reflecting increasing risk as one ascends the pyramid. A **middle ground** portfolio might be made up of 50% government bonds and 50% large-company stocks. Finally, an **aggressive** investor could opt for a portfolio containing 50% small-company stocks, 30% large-company stocks and 20% government bonds.



proportionately among different asset categories such as stocks, bonds and money markets or cash. The percentage you invest in each asset category depends on your particular financial objectives, risk tolerance and time horizon.

Why Should I Use an Asset Allocation Strategy?

Dividing your portfolio among a variety of investment categories minimizes your reliance on the performance of any one class. Combining a variety of investments that are unlikely to move in the same direction helps reduce the risk associated with any single investment, as each one responds differently to changes in the marketplace. For example, a decline in one may be counterbalanced by those that remain stable or rise. This investment strategy can help you to effectively target your financial objectives and protect your investment portfolio against the four key risks you face during retirement:

- **Longevity risk** that you will outlive your assets;
- **Market risk** that your securities will decline in value;
- **Inflation risk** that growth of your retirement savings will not keep pace with inflation; and
- **Healthcare risk** that growth of your retirement savings will not keep pace with rising healthcare costs, which have been increasing even faster than inflation.

While past performance does not guarantee future results, a sound asset allocation strategy may reduce the overall risk of your portfolio and enhance returns, depending on the risk composition of your choices.

How Do I Create an Asset Allocation Strategy?

The first step in creating an asset allocation strategy is determining your financial objectives, the level of risk you can tolerate, and the time frame in which you can invest. Age, income and your family situation should also be considered, along with your intermediate and long-range goals.

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What are your investment objectives?

Consider the reasons you are investing. Are you planning for your retirement? Are you saving for a down payment on a house? Or maybe you want to do both? Whatever your objectives, your strategy should be developed to help you meet those goals and establish the time frame in which you hope to achieve them.

What is my investment risk tolerance?

Risk tolerance is generally defined as a person's ability to withstand declines in the value of his or her portfolio, financially and emotionally. What is your personal risk tolerance? How comfortable or uncomfortable are you as the value of your investment moves up or down? Are you willing to lose some or all of your original investment in exchange for greater potential returns? In short, it's important to know your personal comfort zone with regard to risk because the potential for investment gain also means that there is the potential for loss, including loss of principal.

How long is my investment time horizon?

Effective investment strategies are goal- and time-oriented. In the world of investing, time is generally described in one of three ways: short-term, which refers to a period of a few months to two or three years;

intermediate- or mid-term, which refers to a period longer than three years but shorter than ten years; and long-term, which refers to a period longer than ten years and perhaps as long as 40 or 50 years. Knowing how long you have to invest, and when and what you'll need your money for, is important in creating your asset allocation strategy.

Should I Change My Asset Allocation Strategy?

Life changes, and so should your investments. The term used for changing or revising your investment strategy is rebalancing. Rebalancing means bringing your investment portfolio back to its original asset allocation mix.

Periodic rebalancing is necessary because over time some of your investments may not be in alignment with your original investment goals. You'll find that some of your investments will grow faster than others. In addition, if an investor's financial goals, risk tolerance or time horizon has changed, he or she can use rebalancing to adjust his or her original asset allocation and create a new strategy.

By rebalancing, you'll ensure that your portfolio does not overemphasize one or more asset categories, and you'll return your portfolio to a comfortable level of risk.

Periodic rebalancing is necessary because over time, some of your investments may not be in alignment with your financial goals.

Who Can Help With My Asset Allocation Strategy?

Some financial experts believe that determining your asset allocation is the most important decision you'll make with respect to your investments — and even more important than the individual investments you buy. Don't worry, you don't have to figure it out on your own. Your NYLIFE Securities LLC Registered Representative can help you create a unique asset allocation strategy based on your individual financial objectives, risk tolerance and time horizon. And if you already have a program in place, he or she can help you re-evaluate or rebalance your investments.

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