Dynamic asset allocation fund performance

Asset allocation refers to diversifying your investments among a variety of different types of assets. It can help protect you from large losses in your portfolio. An asset can be anything from your home to your right to collect royalties on a book you wrote. However, when people describe the allocation of assets, they usually talk about cash being invested directly in the capital markets. Here's a look at the important role asset allocation plays in your investment strategy. Asset allocation means that you spread your money across various assets, such as stocks, fixed income and cash equivalents. Each of these responds differently to

different trends in the market, so having a mix of them in your portfolio will help you minimize losses in a market downturn. In general, the younger you are, the higher the percentage of shares you should own. This is because you have a longer investment period in which to make up losses as they occur, and the stock market is generally trended up over time. More seasoned investors may have a higher percentage of fixed income holdings and are more dependent on regular income than on large equity gains. Asset allocation is an important part of any investment strategy. Your portfolio needs to be diversified, and how your assets are allocated partly determines how diversified you are. Each asset class offers varying degrees of risk and reward. Here are the three most common asset classes, ranked from least risky to the riskiest: Cash: This is the least risky, but the return is negative once you've taken the cost of inflation. Money market funds and certificates of deposit fall into this category. Bonds: There are many types of bonds, but they are all fixed income investments. The safest are U.S. government bonds. They are 100% guaranteed by the federal government and offer a slightly higher return than cash. State and municipal bonds offer slightly greater risk and reward. Corporate bonds offer a higher yield on a higher risk of default. That's especially true of junk bonds. You should also look at international bonds, including emerging markets, as well as domestic ones. Stocks: These are riskier than bonds because you lose 100% of your investment. Over time, equities offer the highest returns and will generally outperform inflation. Within equities, there are three subcategories based on how big the capitalization is: small cap, mid cap and large cap. Like bonds, you need some international and emerging market stocks as well as domestic ones. There are many other classes you should also consider: Real estate: This includes investment properties such as a rental unit, investments in a investment trust (REIT) or in a pooled real estate fund of one type or another. Opinions vary from expert to expert on whether or not to include the house in which you live, if you own it, as part of this allotment. Derivatives: These offer the highest risk and return. Please note that you have more losses than your investment. Commodities: Risk may be because there are so many species. Most investors, however, need to own shares of an oil-related mutual fund, as it should rise in the long run as supplies decline. It is generally recommended that you do not have more than 10% of the allocation in gold. Currencies: If the dollar falls in the long run, it is good to ring assets in foreign currencies such as the euro. If the dollar is weak, then the euro is strong. The two mixed economies are the same size, so they compete with each other in the forex market. Consider Sarah, an investor, has $10,000. She decides to split her money into a three-way combination of stocks, fixed income, and cash. First, she decides to put 60% of her money into shares. She further decides to split this between big companies such as Coca-Cola and Reebok, and small businesses that most people have never heard of, called small caps. She buys $4,000 in index funds that track large-cap companies and $2,000 in index funds that track small-cap companies. She puts $3,500, or 35%, into fixed income investments. It splits this evenly between US Treasury bills and municipal (city) bonds. Finally, she holds $500 in cash, which she holds in a money market account. When the market takes on an inevitable downturn, Sarah will be better protected from a big loss due to her bond investments, which are not as volatile as equities. But when the stock market goes up, the large portion of its portfolio invested in equities will perform well. How much should you assign to each asset? It depends on three factors: Your investment goals: Are you planning for retirement, retiring though, or saving for a down payment on a home? Time horizon: How long does it take to get the money? Risk tolerance: do you sometimes see your investments plummet, knowing that you will get a higher return in the long run? Your goals, time horizon and risk tolerance determine the model you need to use. If you tolerate a high risk to achieve a high return, you put more into stocks and mutual funds. Those with low risk tolerance will prefer bonds. People with a zero risk tolerance, or who need their money within the next year, should have more money. While asset allocation is an essential part of creating a diverse portfolio, it is not quite the same concept as diversification. You allocate your money across different types of assets without properly diversifying those investments. For example, if the stocks in your portfolio are all securities in just a few large-cap companies, you are not diversified for better growth. Diversifying your portfolio means that you cover many different levels of risk and return with your various investments. Allocation is one way to do this, but you should always go one step further to diversify within each asset class. Allocating assets based on your individual investment strategy is what almost any investor would consider good practice. Even billionaire institutional lose money on certain bets. But because they are well covered, it ensures that they don't go down on a single bad investment. A balance between equities, fixed income and cash instruments is also important because it is a strategy that allows macroeconomic movements beyond an investor's horizon. The allocation of the correct allocation creates fluctuations in currencies and greater geopolitical movements, giving the investor a safety net against large-scale changes. Asset allocation is the process of spreading your investments across different types of assets to guard against market changes. Investors typically allocate some of their investments toward stocks, bonds and cash equivalents, but there are other types of assets to consider as well, including real estate, commodities and derivatives. The best mix for you depends on your investment goals, time horizon and risk tolerance. Investing items regularly contain a variation of the phrase not all your eggs in one basket. Those eggs represent your money, and the baskets are the different asset classes you choose to invest in. Decide how many eggs - or dollars - go into each basket called asset allocation. Asset allocation plays an important role in the amount of risk you take with your investments, as well as in the investment returns received. When you choose an asset allocation, spread your investable dollars across categories of investments, based on your goals, age, and risk tolerance. Main asset classesAsset allocation is a big picture of your investment portfolio: Which asset classes do you want in your portfolio and how much of your money do you want in each? Asset classes are simply groups of similar investments. In a broad sense, the asset classes in question are shares, bonds and cash (or cash equivalents such as money market funds, certificates of deposit or savings accounts). All these asset classes bring something of value to your portfolio. Equities offer the greatest potential for long-term growth, but also expose you to the greatest risk. Bonds balance risks of equities and provide a steady stream of income. Cash bails you out of a jam when your roof fails or lets you meet short-term goals such as a down payment on a house. As a metaphor helps, think of asset allocation as a car: Stocks act as the engine, giving your portfolio power and forward momentum. Bindings are akin to shocks, absorbent impact and smoothing bumps. And cash is like the brakes: the thing you use when you need to slow down or stop altogether. These different components work together to help you move more safely to your destination. Asset allocation is important because generally asset classes do not move together in tandem. By invest in different asset classes, an investor ensures market volatility and gains flexibility, especially when liquidating investments to generate money. For example, stocks and bonds often move in the opposite direction. If the stock market is lower, an investor who can sell bonds, giving the stock market time to rebound before touching their shares. Often you will hear the asset allocation of a portfolio that is characterized by its orientation. A more aggressive portfolio would have a higher allocation of shares and a lower allocation of bonds and cash, while a more conservative portfolio would have a lower allocation of shares and a higher allocation of bonds and cash. Choosing the best asset allocationEr is not exactly right or wrong asset allocation, but you do want to settle on the best investment mix for your situation and needs – and by needs, we mean your goals, age and risk tolerance. It is usually not ideal to look at these needs in isolation as you shape your asset allocation strategy. Instead, they each consider in consultation to ensure that your approach fits both your goals and your time frame. Asset allocation on targetsTo get started, think about what you are investing for and when to fund that goal. If you're saving for a wedding in two years, you probably don't want to put any of your money into stocks or bonds; you will instead be heavily in favour of cash or cash alternatives. You don't want to pull up until your wedding day to find that the market wiped out your catering budget. A less defined goal, such as wanting to buy a beach house in 15 or 20 years, would probably justify more aggressive investing in the hope of growing your money quickly, making this goal less of a dream and more of a reality. Asset allocation by ageA different way to look at your time horizon, or the time you need to invest before you reach your goal, is by age. If you are saving for a child's college education, the age of the child dictates the asset allocation. For a toddler, an aggressive allocation is appropriate because graduation is more than 10 years out and you are accordingly free to use higher yielding assets (such as stocks) because short-term dips will not disrupt your goal. As the child grows, their allocation should gradually become more conservative as they come close to the time they need access to these funds. If you are saving for your retirement, you are looking at your current age and your planned retirement age. If the latter is 30-some years away, for example, many advisers would say that the majority of your portfolio should be invested in stocks. You have time to weather market fluctuations in that case, and your primary focus is growing your money during that stretch. As you reach retirement age and prepare to leave the labor force, you are slowly shifting to a more conservative or less risky allocation. Contrary to popular belief, however, it is not necessary to keep your entire portfolio in and move cash on your retirement day. Remember, retirement is not the end - it's a period that could last 30 years or more. You need your money to keep growing in those years, and that means maintaining a stock allocation.» Plans for retirement? Read our guide to retirement investmentAssetaling by risk toleranceA different critical factor factor is your risk tolerance. Risk is necessary for reward, but taking more than you process can easily lead to rash reactions. You'd be more inclined to pull out of the market every time you get a flash of red on CNBC, meaning a company is trading lower. (You've no doubt heard that the goal is the opposite: Buy low, sell high.) Risk tolerance may also depend on how your portfolio is tracked relative to your goals. If you have already stored a nest egg that is bigger than you will ever need, you are willing to take more risk as you might stomach a potential loss more easily than someone who will just have enough to live off in retirement. Alternatively, someone with a large pillow may prefer to keep very conservative what they already have, because they have little need for their assets to grow further. Shortcuts to asset allocationDoes you want to jump towards it? There are tools that allow you to obtain a suitable asset allocation in one fell swoop. Some investors follow the rule of 100 to determine an appropriate asset allocation. This rule of thumb suggests that you deduct your age from 100 years to determine the appropriate level of exposure to stocks within your portfolio. For example, a 40-year-old must have 60% of the exposure to shares in his portfolio (100 min 40 equals 60). However, given the increase in life expectancy in recent years, some advisers believe subtracting 110 or 120 delivers a more appropriate measure today. Another option is to buy a target-date fund, a type of mutual fund that holds both stocks and bonds at a ratio designed to adjust your time horizon. For example, if you plan to retire in 2050, you choose a target date fund for 2050 and your assets will be automatically allocated with that year in mind. It will also adjust your allocation over time, becoming more conservative as 2050 approaches. A disadvantage of both methods is that the allocation is equal for everyone based on their age or time horizon, without taking into account their individual situation, other goals and risk tolerance. A robo-adviser, or automated investment manager, will incorporate these factors and then produce a portfolio that fits the bill. Robo-advisors will also adjust your allocation over time, and many will provide additional services, such as access to a human advisor. However, most robo-advisers are less expensive than human asset managers, with many offerings starting annually at 0.25% of the investor's assets under management. Asset allocation calculatorIf you want to do asset allocation homework on your own, you should first determine where your portfolio allocation stands now. Our calculator below can help. What next? As soon as you ideal general portfolio allocation in mind, you zoom in on the asset allocation for each account. Each account does not need to have the same assignment. For example, it may be wise to be more aggressive in retirement accounts with a longer time horizon and more conservative in taxable brokerage brokerage that home funds you might need for retirement. After you've determined the asset allocation within each account, you'll address asset-level diversification. Within each class you choose stocks by geography, industry and market capitalization - the size of a company - or share bonds by short or long term, type issuer and geography. This is called diversification. You even ladder bonds, buying a variety of maturity dates so you move to better interest rates as interest rates rise. Diversification within each asset class helps significantly reduce your risk without reducing your return potential. When you diversify, instead of buying a large-cap stock and calling that portion of your asset allocation well, you buy some large-cap stocks or, better yet, a large-cap mutual or index fund. If this seems to spend more effort than you would like, consider the above shortcuts as potential alternatives.» Reduce your risk: Learn more about how to diversify your portfolio And remember that your portfolio's asset allocation shouldn't be static, as your needs are likely to change over time. You will want to review your portfolio periodically to ensure that the asset allocation remains meaningful for your situation. Also, as the market moves, your allocation will adjust over time. If the stock market does well, your equity allocation is likely to grow and become a larger percentage of the portfolio. If this happens, you are considering rebalancing or putting your portfolio back in line with your ideal allocation. Assignment.