

Within the bond category, you could diversify with short-term and long-term bond investments. While there are no set formulas for asset allocation and diversification, guidelines can help you manage risk and meet your goals (for example, a need for growth in order to offset the erosion of purchasing power caused by inflation).

Dollar Cost Averaging

Many investors make systematic investing an integral part of their overall savings plans. One of the more popular techniques is **dollar cost averaging**. With this approach, an investor buys more shares when prices are low and fewer shares when prices are high. This may result in a lower average cost per share than purchasing a constant number of shares at the same periodic intervals or making a single investment. Dollar cost averaging cannot guarantee a profit or a lower cost per share, nor can it protect against a loss. However, it is a strategy that reinforces the discipline of regular investing and offers a systematic alternative to “market timing.” In order to take full advantage of dollar cost averaging, you need to consider your ability to continue purchases through periods of low price levels.

The chart at right demonstrates that investing \$100 a month for one year would actually cost less per share than the average market price per share.

Afraid of the Bear?

Periods of falling equity prices are a natural part of investing in the stock market. Bear markets follow bull markets, and vice versa. They are considered the “ebb and flow” of wealth accumulation. Bear markets create apprehension in the minds of many people. That’s natural. However, feelings of anxiety should be balanced with reason for anyone seeking financial success.

MONTH	INVESTMENT	HYPOTHETICAL MARKET PRICE PER SHARE	APPROXIMATE NO. OF SHARES PURCHASED
1	\$100	\$10	10.0
2	\$100	8	12.5
3	\$100	5	20.0
4	\$100	8	12.5
5	\$100	7	14.3
6	\$100	9	11.1
7	\$100	10	10.0
8	\$100	7	14.3
9	\$100	5	20.0
10	\$100	7	14.3
11	\$100	8	12.5
12	\$100	9	11.1
TOTALS:	\$1,200	\$93	162.6
Average market price per share:		\$7.75 (\$93/12)	
Average cost per share:		\$7.38 (\$1,200/162.6)	
<i>This example is hypothetical. Be aware that investment returns and principal values of stocks and mutual funds will fluctuate due to market conditions. Therefore, when shares are redeemed, they may be worth more or less than their original cost.</i>			

You’ll be inundated with all kinds of economic information during both bear and bull markets. There will be reports, for example, about inflation, interest rates, and unemployment figures that may entice you to either give up on stocks or invest in them to the exclusion of investments paying relatively smaller returns.

To avoid being lured to either extreme, develop a financial strategy that accounts for risks you find comfortable. Your financial professional can help you personalize your portfolio according to your risk tolerance, time horizon, and investment objectives.



Name, Designation(s)
Title

Company Name
Street Address
City, State Zip Code
Phone Number
Fax Number
E-mail Address

Personalize Your Portfolio

Analyze *Your* Risk
Tolerance, Time Horizon,
and Investment Objectives



“*to thine* own self be true,” wrote Shakespeare. Sage advice for investors looking to personalize their portfolios. Defining your goals, your comfort with risk, and your time frame will help you select investments and strategies best suited to your particular situation. The following discussion will also help you learn more about risk and return, asset classes, mutual funds, diversification, asset allocation, and dollar cost averaging.

Define Your Goals

Both your short- and long-term goals will play key roles in your overall investment plan. You may be planning to fund a child’s education, buy a house, start a business, or retire early. Whatever your goals, your investments should be working toward them. Choosing the best strategies for you will depend on your personal investment profile — your comfort with risk, your investment experience, your time-frame, the amount you have to invest, and your ultimate objectives.

No one portfolio works for every investor, but every investor should plan for inflation. How can you keep inflation from eroding the purchasing power of your money? Consider the following hypothetical example. Suppose you invested \$10,000 in a fixed-income account at 4%. Assuming a 3% annual inflation rate, your total investment would be worth only \$12,132 in 20 years — and that’s before taxes! Achieving a greater return may entail more risk.

Risk vs. Return

What is **risk**? It measures the likelihood of loss or less-than-expected returns, and it is often based on historic or average returns. **Return** refers to the profit you make on your investments. All investments carry a tradeoff between **risk** and **return** — generally, the higher the risk, the higher the potential

return or loss. Conversely, the lower the risk, the lower the potential return or loss.

Risk tolerance, simply defined, is the measurement of your ability to handle declines in the value of your investment portfolio. It is a highly individual matter that factors in your temperament, age, stage in life, investment experience, financial goals, and time horizons — each typically affects your ability and willingness to shoulder risk.

Your time horizon represents the amount of time you have to meet your financial goals. For example, a short time horizon (less than five years) is probably best served by a conservative portfolio that emphasizes protecting principal. On the other hand, the more time you have to invest, the greater the risk you may be able to shoulder because you have time to recover from market downturns.

Three Asset Classes

There are three main asset classes: **stocks**, **bonds**, and **cash**. If you own stock, you are a shareholder and literally own a part of a company. The company has no obligation to pay you back by redeeming your shares, and the value of your shares will rise or fall with the fluctuations of the market.

On the other hand, when you buy bonds, you are acting as a lender. That is, you are “lending” your money to an entity (e.g., a company, state, municipality, or the U.S. government) for its promise to pay, which takes the form of periodic interest and a return on your principal. The borrower *does* have an obligation to you, as a bondholder, to repay. However, it is possible for the borrower to default on this obligation to pay interest and principal.

Cash, a liquid asset, is also typically found in a diversified portfolio. Typical cash vehicles include **certificates of deposit (CDs)**, **money market accounts**, and **bank savings accounts**. All of

these options offer substantial liquidity and relative safety of principal, but generally, they earn a much lower interest rate than bonds and return less than the dividends or gains you could potentially earn by investing in stocks.

Significant differences exist in risk among investment asset classes. Bank CDs are FDIC insured and offer a fixed rate of return, whereas securities (stocks and bonds) are not FDIC insured — their principal and yield may fluctuate with changes in market conditions.

Mutual Funds

Mutual funds allow the investor to purchase not just a share of one company’s stock, but a larger portfolio of investments that can include a mixture of stocks, bonds, and cash. They offer a unique combination of benefits, including professional management, liquidity, diversification, choice, and flexibility. Through one mutual fund, an investor can buy into many different markets.

Mutual funds range in value from several million to several billion dollars, and they have different purposes and growth and/or income expectations. They range from the very conservative money market funds to aggressive growth funds, and they fall into several general categories based on the major objectives of the fund, such as income, long-term growth, growth and income, or a balanced investment strategy.

In order to evaluate a mutual fund, obtain and review the fund’s **prospectus**. The prospectus is documentation required by the Securities and Exchange Commission (SEC) that provides information regarding the fund’s management, goals and objectives, and performance history, as well as pricing and any associated fees. A mutual fund’s past performance is no guarantee of future results. Investment returns and principal values will fluctuate

with market conditions. When shares are redeemed, they may be worth more or less than their original cost.

Diversification and Asset Allocation

For many people, investing typically begins with one stock, bond, or mutual fund. Over time, other selections are added because most people understand it is imprudent to invest everything in a single security or fund, even if it has a solid reputation. However, just “spreading money around” in a haphazard way may create only the illusion of **diversification**.

Diversification is an investment strategy used to manage risk for your overall portfolio. Techniques involve mixing your holdings to include a variety of stocks (small-cap, mid-cap, and large-cap), international investments, bonds (short- and long-term), and cash. By varying your investments, diversification attempts to minimize the effects a decline in a single holding may have on your entire portfolio.

The main objective of **asset allocation** is to match the investment characteristics of the various asset categories (equities, bonds, cash, etc.) to the most important aspects of your personal investment profile — that is, your risk tolerance, your return and liquidity needs, and your time horizon. Asset categories react differently to changes in the economy.

If you have assembled what is known as a “hodgepodge” portfolio, you may be unaware of the extent to which your investments are (or are not) consistent with your objectives. Since various investment categories have unique characteristics, they rarely rise or fall at the same time. Consequently, combining different asset classes can help reduce risk and improve a portfolio’s overall return. Furthermore, within the equity category, you could diversify among large company stocks, small company stocks, international stocks, and mutual funds.