

Description

How you diversify your investment portfolio is a key factor to moderating your risk and determining your portfolio's performance. In fact, studies have shown that your asset allocation - the percentage you have allocated to stocks, bonds, and cash in your portfolio - is even more important than the individual securities you choose. What's right for each individual varies and should reflect your goals, time frame and feelings about risk. You must be able to stick with it during years when there's a loss as well as when there is a gain.

The purpose of this document is to provide some general guidelines for determining an appropriate portfolio allocation.

How do I determine my portfolio allocation?

The most important factor when choosing your allocation is your **time horizon** - that is, how much time you have before you need the money from your investments. A second consideration is your **risk tolerance** - the level of risk that you are willing to take with an investment. Your risk tolerance often correlates directly with your time horizon but should not dominate your investing decisions. With this in mind, you may have to weather some short-term swings in order to be more successful for the long term.

The more time you have to invest - whether it's for retirement, saving for your child's college education, or buying a house - the greater the percentage of equities you should have in your portfolio. The reverse is true if your time horizon is shorter. Your investments should become progressively more conservative as your need for the assets draws nearer. If you are planning to withdraw the money in two years or less, all of your assets should be in short-term securities so that you can continue to earn interest while shielding yourself from market volatility.

One way to determine the stock and bond allocation of your retirement portfolio is to use the following rule of thumb: the percent that you should invest in equities is 110 minus your age multiplied by 1.25. For example, if you are 40 years old, you would take $110 - 40 = 70$; $70 \times 1.25 = 87.5$. Therefore, 40-year-old investors using this formula would have 87.5% of their portfolios in equities - broken down into large-cap, small-cap, and international stocks - and 12.5% of their assets in fixed-income investments. Keep in mind that this is only a guideline.



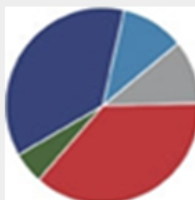


When it's time to rebalance your portfolio, it is important to continue adhering to your strategy. For instance, at the end of the year, if your 80% stock and 20% bond portfolio has shifted to 75% stocks and 25% bonds, adjust your holdings back to their original target allocations.

Also, remember to avoid making purchases based on how investments are performing at a particular point in time. Instead, you should remain focused on your plan, building a portfolio that will weather short-term market fluctuations and meet your long term goals.

The illustration below depicts model asset allocations utilized by Staib Financial Planning. For a personalized review of your portfolio or with help in determining an asset allocation which is right for you, contact a Staib Financial Planning investment specialist at 303.346.5336 or pstaib@staibfinancialplanning.com.

Model Portfolio

These model portfolios are designed to be diversified across asset classes so they meet the wide spectrum of investor profiles, ranging from conservative to aggressive. The portfolios can guide you in dividing your assets among various types of stocks, bonds and short-term investments, based on individual factors such as your time horizon and your risk comfort level.

CONSERVATIVE	MODERATELY CONSERVATIVE	MODERATE	MODERATELY AGGRESSIVE	AGGRESSIVE
Time Horizon: Under 3 years	Time Horizon: ~ 5 years	Time Horizon: ~ 10 years	Time Horizon: >= 10 years	Time Horizon: >= 15 years
For investors who seek current income and stability and are less concerned about growth.	For investors who seek current income and stability, with some modest potential for increase in the value of their investments.	For long-term investors who don't need current income and want some growth potential. Likely to entail some fluctuations in value, but presents less volatility than the overall stock market.	For long-term investors who want good growth potential and don't need current income. Entails a fair amount of volatility, but not as much as a portfolio invested exclusively in stocks.	For long-term investors who want high growth potential and don't need current income. May entail substantial year-to-year volatility in value in exchange for potentially high long-term returns.
				
<ul style="list-style-type: none"> ■ Large Cap Stocks 15% ■ Small Cap Stocks 0% ■ International Stocks 5% ■ Bonds 50% ■ Cash 30% 	<ul style="list-style-type: none"> ■ Large Cap Stocks 25% ■ Small Cap Stocks 5% ■ International Stocks 10% ■ Bonds 50% ■ Cash 10% 	<ul style="list-style-type: none"> ■ Large Cap Stocks 35% ■ Small Cap Stocks 10% ■ International Stocks 15% ■ Bonds 35% ■ Cash 5% 	<ul style="list-style-type: none"> ■ Large Cap Stocks 45% ■ Small Cap Stocks 15% ■ International Stocks 20% ■ Bonds 15% ■ Cash 5% 	<ul style="list-style-type: none"> ■ Large Cap Stocks 50% ■ Small Cap Stocks 20% ■ International Stocks 25% ■ Bonds 0% ■ Cash 5%
Historic Returns for Asset Allocation by Risk Profile (1970-2006)				
Best Year 22.8%	Best Year 27.0%	Best Year 30.9%	Best Year 34.4%	Best Year 39.9%
Average 8.6%	Average 9.8%	Average 10.6%	Average 11.1%	Average 11.4%
Worst Year 0.1%	Worst Year -6.6%	Worst Year -12.9%	Worst Year -19.1%	Worst Year -23.8%