

Question: I'm reading more and more about asset allocation. How important is it?

Answer: What would you say if I told you that the return you earn on your money has little to do with your ability to pick good investments (security selection)? What would you say if I told you that the return you earn on your money has little to do with knowing when to buy or sell certain investments (market timing)? What would you say if I told you that the vast majority of the return you earn on your money can be attributed to how well you divide up your money among the major asset classes – stocks, bonds and cash (asset allocation)?

When you realize that whether or not you achieve your financial goals will depend, in large part, on how well you position your assets, I'd have to say it's one of the most important decisions an investor can ever make.

According to Ibbotson & Associates, asset allocation accounts for nearly 92% of your overall portfolio performance, with investment selection accounting for only 4% and market timing accounting for less than 2%. All other factors account for less than 2%. This clearly shows that how you allocate your money may actually be more important than the individual investments you choose.

Many people are led to believe that trying to "time" the market and picking the next "hot" investment are the keys to success in reaching their goals. They are sorely mistaken. The ultimate goal, of course, is a secure retirement. How soon you retire, how long the money will last, and in what style you retire can be greatly affected by your decision on asset allocation.

Bill's Bottom-line: Normal market fluctuation will make your asset allocation change. Remember to rebalance your portfolio back to its target allocation at least annually.



Bill Losey, CFP®, CSA, "America's Retirement Strategist", has nearly 20 years experience in the financial planning industry and has been interviewed on the CBS Radio Network, CNNfn, FOX's "Hannity & Colmes", and Bloomberg Business Radio. Bill publishes *Retirement Intelligence*, a free award-winning weekly newsletter that reaches over 5,000 subscribers worldwide. He offers advice and consulting, money management, and wealth coaching services to women and couples nationwide. Bill can be reached online at www.MyRetirementSuccess.com or by calling 1-866-786-2521.