Build your portfolio on a solid foundation

PROVIDED BY JAMESTOWNE INVESTMENTS

Asset allocation is to investment planning what the foundation is to a house or the chassis is to a car. It's what everything else is built upon. And just as important as constructing a house on a firm foundation, having the right asset allocation can be vital to helping you work toward your financial goals.

Although the name may sound intimidating, asset allocation is just technical term for a rather simple concept. Asset allocation is merely how your portfolio is divided up among different types of investments, such as stocks, bonds, and what are called "cash alternatives."

How asset allocation works

Using asset allocation to build a portfolio designed to help you reach your long-term goals requires taking three primary factors into consideration:

Goals. These are simply what you're investing to achieve. For many of us, a major goal is to enjoy a financially secure retirement. If you have younger children or grandchildren, helping them afford higher education without building a mountain of debt is likely another goal. Or maybe you'd also like to make a luxury purchase—such as buying a vacation home or dream car or taking an exotic vacation—down the road.

Time horizon. One reason why knowing your goals is important is because it helps determine your time horizon (how long you have until you need to tap into your investments). If you're 28, for example, and want to retire at 68, your time horizon is 40 years. Simple as that.

Risk tolerance. Your risk tolerance is the amount of volatility in your portfolio's value you're comfortable with. If you find you can't sleep because you're worried about your investments—especially when there's market volatility—you probably need to adjust your asset allocation to suit your risk tolerance.

Putting the pieces together

With those factors in hand, you can begin to piece your asset allocation together. The primary building blocks, at least to begin with, are likely to include:

Stocks. Historically, stocks have offered attractive returns, but along with those returns, there's also been periods of volatility. If you're young, you should have a long time horizon—especially when it comes to retirement. That may allow you to have a larger allocation to stocks because you have longer to ride out any short-term market volatility that occurs.

Bonds. One reason investors like bonds in a portfolio is because their prices have historically been relatively stable. By owning bonds, an investor's aim may be to help manage his or her portfolio's overall value when there's volatility in the stock market. The larger the proportion of bonds, the more steady the portfolio's overall value should remain. Keep in mind, however, that bonds' returns have been significantly less than stocks.

Cash alternatives. These are relatively lower-risk, lower-return investments. On the upside, they can be easily be converted into cash when it's needed. On the downside, their returns may not even keep up with inflation.

Of course, there are many other investments to consider, such as real estate investment trusts (REITs) and commodities. Just remember that you should intend for each type of investment you choose to play a particular role, such as providing the potential for growth or income or stability, in your overall allocation. Alternative investments, such as those mentioned above, also have their own unique risks that you should fully understand before investing.

Once you've decided on the types of investments to include, you need to determine how much of each is appropriate. If you're looking to grow your investments' value, you'll likely have a larger stock allocation and a smaller one for bonds. The result would be a portfolio with more potential volatility than one with a larger proportion of bonds. You should ask yourself if that's a trade-off you're comfortable with.

Get help if you need it

Although asset allocation is a relatively simple concept, you can see it has lots of "moving parts." That's one reason why many investors opt to work with a professional financial advisor. If you decide to seek help, look for an advisor who will first get to know you and then help create an investment plan that's built around (what else?) an appropriate asset allocation.

Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns.

United Way's COVID-19 fund continues to help those in need

United Way of the Virginia Peninsula's COVID-19 Emergency Fund continues to serve the growing and immediate needs of the Peninsula community, according to a release from the nonprofit.

This fund provides resources and services to residents affected by the health and economic damage of the pandemic, the release said.

The fund has assisted nonprofit organizations working on the frontlines of the pandemic, supporting the essential needs of economically vulnerable populations hurt by closures, cancellations and/or health issues related to COVID-19, United Way said.

With the COVID-19 vaccine on the horizon, some funding streams have already shifted from crisis response to relief and recovery initiatives.

The nonprofit community and local human service agencies have seen increased needs for child care, rent/mortgage assistance, and basics, such as food, shelter and medical care. Contributions to this fund are designed to support agencies responding to these issues.

For more information on United Way's response to COVID-19, visit www.uwvp.org/covid-19.

"People who never thought they would be in a position to need help have encountered challenges too significant to overcome on their own, even with savings," said Steven Kast, President and CEO of the United Way of the Virginia Peninsula. "Any contribution, small or large, is immensely appreciated and unites our community for the greater good. There is still a long road ahead, but together, we can make a difference for our neighbors in need."

To donate to United Way's COVID-19 Emergency Fund, visit www.uwvp.org. Checks can be mailed to United Way of the Virginia Peninsula at 11820 Fountain Way, Suite 206, Newport News, Va. 23606.

For residents of Gloucester and Mathews who are in need of assistance as a result of COVID-19, call 757-594-4636.

PAID ADVERTISEMENT

Don't take the fun out of budgeting

Here's what's easy to overlook when you're new to thinking strategically about your money.

You set aside funds for the daily bills, including the mortgage, utilities, gas and food. You plan for college and other educational expenses. You decide how much you can contribute to a 401(k).

Don't forget about fun, reminds financial advisor Margie Wiley.

"You have to budget in fun for any sort of lifestyle," she says. "Fun will blow up your savings plan, your retirement plan, your life strategy if you do not plan for it because nobody plans for fun."

You define what's fun. What do you value doing the most? Maybe it's splurging on a venti Mocha Frappuccino two shots of expresso. Could be that alligator wallet with matching shoes. Many of us relate fun to experience: an afternoon at the rock gym or a cruise to Alaska with your hubby. Fun can also mean entertainment — a Netflix subscription or buying the hard copy to read before book club. These days, fun coincides with wellness, whether it's a pedicure, massage or a peaceful night at home with a favorite bottle of wine.

You define your idea of fun and decide how much to budget for it — typically no more than 30% of your monthly income but often significantly less, all dependent on your financial situation. Wiley can help you decide the amount that fits your budget. But it can't be zero no matter how much you prioritize saving.

If you don't take the time to build in some money for fun, you've set up an unrealistic budget and a lifestyle you can't sustain.

Once you decide how much per month will go fun, the only rule-of-thumb is to stick to that amount or adjust annually based on your goals. What you don't want to do is borrow from your retirement plan or hand off your credit card to make up the difference. Just as you set aside a designated amount for the mortgage, you do so for fun.

Sometimes that means taking a holistic view of the small stuff to save up for something larger. You might have to limit eating lunch out every day if you can't afford the vacation you want.

Planning for fun might sound boring, Wiley admits, but it's a critical part of keeping your budget on track so you and your investment advisor can achieve all of your investing goals.

Any opinions are those of Margie Wiley, AAMS, Financial Advisor and not necessarily those of RJFS or Raymond James. The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. You should discuss any tax or legal matters with the appropriate professional.