ASSET ALLOCATION: Don’t Put All of Your Eggs in One Basket

There are three basic places where you can invest your money:

1. **Cash**: includes certificates of deposit and money market funds; cash does not earn enough interest to keep its value due to inflation
2. **Bonds**: a certificate of debt from a company or government; includes Treasury bills, and mutual funds can also include municipal, corporate and/or government bonds
3. **Stocks**: a share in a company; mutual funds can include stocks known as *large-caps, mid-caps* or *small-caps* that represent the size of large, middle-sized or small companies

Reasons Not to Put All Your Eggs in One Basket

- Stocks have historically had the strongest record of high returns over the long term.
- In some individual years, however, bonds have the best returns.
- Cash investments usually provide the lowest return, but they also come with the least amount of risk of losing value.
- It is very hard to predict what investments will do best in any given year. You need to save your money in different investments so that you are taking advantage of the earning power of higher return investments, while also protecting some of your money in less risky investments.

What is Asset Allocation?

Asset allocation simply means that you decide how you will invest your savings among stocks, bonds, and cash.

For example, if you are going to invest $100 and you have decided that you want to have:
- 15% in Cash, 25% in Bonds, and 60% in Stocks

You would put:
- $15 in Cash, $25 in Bonds, and $60 in Stocks

Each time you invest, you would split up your money in the same way.

Other Example Allocations

**Conservative**
- 20% in Cash
- 40% in Bonds
- 40% in Stocks

**Moderate**
- 10-25% in Cash
- 25-30% in Bonds
- 50-65% in Stocks

**Aggressive**
- 5% in Cash
- 15% in Bonds
- 80% in Stocks

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How Much Should I Put in Each Type of Investment?

Financial planners, brokers and mutual fund companies often give different examples or formulas, depending on a number of different circumstances, including how much risk you want to take and how soon you will need the money.

**Rule of thumb**: If you are saving toward a goal that is:
- 1-3 years away, put more into cash investments
- 3-10 years away, put your money into a mix of cash, stocks and bonds
- 10 years or more, invest primarily (but still not solely) in stocks

Some financial planners suggest an easy formula in which you subtract your age from 100 and invest at least that percentage in stocks. For example, if you are 45, you would put at least 55% into stock funds (100-45 = 55). Others suggest that is too low, especially if you are saving primarily for retirement, which would still be 20 years away. There is no perfect answer, but don’t let that stop you from investing. Do the best you can, and get help from a financial planner if needed.