CANACCORD Genuity
Wealth Management

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Investor Insight

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Asset Allocation is Important

From an investment perspective, asset allocation deals with the way in which your securities are allocated within broad categories.

It may not just be about equities or bonds. For example, some people may have restricted their investments to include only real estate. They may own rental properties in the U.S., with the hope that the value of the underlying property will rise in price and cover any operating costs to provide a real return over time that can be realized and used during future years for personal purposes.

During the commodity super-cycle that peaked during the first decade of the new millennium, some investors may have focused their purchases on commodities-based investments, with the hope that this tactic would result in a positive return or "outperformance" over time.

With both of these asset classes (and others), the turbulence of the marketplace in recent times has sent a strong message about the need for appropriate asset allocation.

What is Asset Allocation?

Asset allocation is the manner in which your investments are proportioned within each investment category, such as stocks, bonds, real estate, commodities, cash and other asset classes.

Generally, the goal of asset allocation is to help you plan to meet your financial goals by adjusting and rebalancing your allocations based on a variety of factors, including such things as your age, current financial position, risk tolerance or size of estate. The risk associated with your portfolio should reduce over time as the portfolio reaches its end point.

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Determining Your Asset Allocation

The process of defining an appropriate asset allocation will depend on a number of important factors. A general first step should be identifying realistic financial goals and time horizons. These may include education expenses for your children, the purchase of a house, vacation or car expenses, your retirement goals, and others. You will need to understand the timing and the amount of money needed to achieve these goals, as well as your ability to generate the required resources.

Once you have determined your goals, prioritize them according to a time frame. Short-term goals should have less risky investments and longer-term goals can have more risky investments.

Discussing these objectives is important, especially when it comes to your overall wealth management plan. The process may result in the abandonment of some of your current “wants” as being out of reach at the moment and may require you to rethink your priorities.

Changing Your Mix

Once you have your basic investment plan in place, you should try to adhere to it. Be disciplined to ensure that you don’t take unnecessary risks. Don’t be afraid to stick to a plan that has been well-thought out for your circumstances.

However, you should also consider reviewing your asset allocation each year. With the passage of time comes change in the time horizon for each of your investment goals. Longer-term goals now become intermediate or shorter-term goals. As well, different events in your life may also trigger the need for change in your allocation mix, such as marriage, the birth of a child, an inheritance or the death of a spouse.

Seek Expert Advice

Worth repeating: Investors should seek advice about any aspect of the investment process, but particularly about asset allocation. Don’t be afraid to discuss the merits of different asset classes or securities in meeting your own personal investment objectives.