

Advice: How To Optimize Your Portfolio

## Making the Right Asset Allocation

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Asset allocation can make or break your financial future! MyPrivateBanking.com presents a new guide on the topic of [“Making the Right Asset Allocation”](#). The return on and risk of your investment portfolio is mainly influenced by two factors that are under your control: Firstly, how well you understand the long-term performance and associated risk of the various asset classes like stocks, bonds, real estate, commodities, alternative investments and cash. Secondly, how you distribute your funds across these asset classes.

It is critical to identify the right allocation for you. The correct mix of assets depends on your financial personality. Your financial personality is defined mainly by your financial goals, your risk tolerance and your psychological ability to cope with uncertainty. You have to identify if your financial personality type is conservative, balanced or long-term oriented. You could also be a combination of these types.

If you are able to identify your financial personality correctly and allocate your assets accordingly, you can protect yourself against various grave mistakes, namely: You would not switch your financial personality during market cycles or be overconfident during market upswings or fearsome during downturns. In consequence, you will avoid constantly moving and changing your asset allocation. You would be able to keep off the hunt for quick profits, which are usually unsuccessful, by picking special stocks, bonds or rare commodities. You would also avoid getting seduced by financial witch doctors who promise wonderful but totally unrealistic gains. Finally, you can also avoid being overly conservative and fearful during times of opportunity. All these patterns of behaviour can endanger and could even wipe out your wealth.

This [guide](#) helps you understand the different asset classes and gives you a set of practical, easy to implement instructions on how to identify your financial personality and broadly select the right asset allocation. There is also a list of clear do's and don'ts for your investment strategy. Here are some important highlights:

- Diversify within an asset class: In addition to holding diverse asset classes, diversification means the presence of a good mix of various kinds of assets within an asset class. Thus, you should make sure that different regions, sizes of companies and sectors are represented in your portfolio.
- Keep your asset allocation stable across market cycles: This rule does not mean that you have to re-adjust your assets every time the market moves by a few

percentage points. This would be far too costly over a period. Just make sure that, over time, you stay broadly within the targets you have set yourself for your asset mix.

- Use Exchange Traded Funds (ETFs) and other index products: These are simple but successful instruments to invest in asset classes like stocks and bonds. There are now even ETFs for certain commodities like gold. The main advantage of these products is their low cost compared to actively managed funds.
- Avoid stock picking: There are only a few excellent stock pickers in the world. Chance that you or your wealth manager being among them are quite slim. Hence, it is better to avoid betting on single stocks.
- Avoid market timing: Investors who want to time the market, try to sell assets when the market is riding high and buy them when it is very low. Sounds simple, but rarely works.
- Find a competent wealth manager to support you: We advise you to choose a professional wealth manager who can support you in the process of discovering and implementing the right asset allocation.