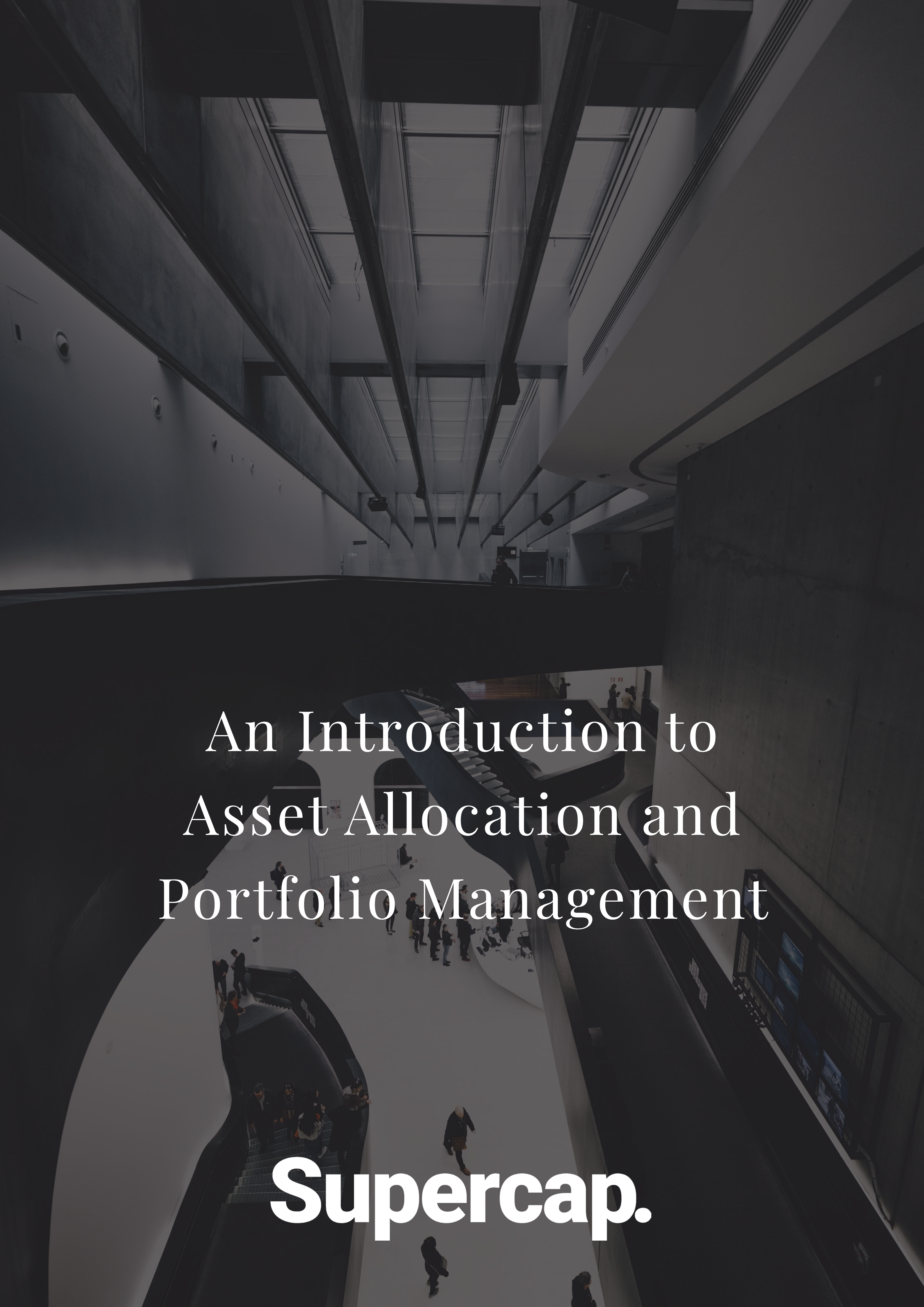

An Introduction to Asset Allocation and Portfolio Management

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Constructing a diversified and balanced portfolio is one of the most important decisions you'll make as an investor. The wrong allocation can lead to outcomes such as underperformance, illiquidity, and/or loss of principal.

On the other hand, a well-balanced portfolio can help you preserve capital during market downturns while also generating returns over time.

What is Portfolio Allocation?

Portfolio allocation refers to the percentage of your money allocated to various assets and classes in your overall investment portfolio.

You want to allocate your money to the asset classes that will perform best based on your overall investment strategy and time horizon. Different investors have different goals, risk tolerance, and time constraints when it comes to investing.

Investing is a complex endeavor with many moving parts, and knowing what you're getting into before you invest can help ensure you're making the most of your portfolio allocation.

The goal behind achieving a well-balanced portfolio is so that even if one portion of your assets experiences losses, another portion still has enough gains along with it to offset those losses. You should also be aiming for a mix of risky and less risky investments within each asset class.

By doing this, you are diversifying your assets across various markets, industries, and company sizes—allowing you to potentially capitalize on any upside while still mitigating or minimizing potential losses from any one investment in the market or industry.

Strategic vs Tactical Asset Allocation

There are two main schools of thought when it comes to portfolio allocation: strategic and tactical.

Strategic asset allocation is a long-term approach that involves investing in multiple asset classes over time to build a well-balanced portfolio. This can include stocks, bonds, real estate, private investments, hedge funds, and more.

Tactical asset allocation is a short-term approach that involves allocating assets according to specific factors like market performance or risk tolerance. This can involve allocating more toward growth or value stocks following an upswing in the market or reducing risk by selling high and buying low during periods of crisis.

Popular Allocations

The 60/40 portfolio is perhaps the most popular investment allocation among individual investors. This portfolio consists of 60% equities and 40% fixed income (bonds). A moderately conservative portfolio might flip this, with 60% fixed income securities and 40% equities, while more growth-oriented portfolios would focus more on equities and alternatives.

Investors are increasingly looking for alternative investments that have the potential to add more yield or generate greater returns than what they can achieve with traditional fixed-income investments. As a result, investors are increasingly seeking out opportunities within alternative asset classes such as real estate, private equity, and hedge funds.

The current state of the U.S. economy has led many investors to seek higher yields and returns on their investment portfolios. With inflation rates increasing, investors have been seeking alternatives that shield them from loss of capital.

Equities, bonds, commodities, real estate, private equity, and hedge funds are among the most common types of investment used by individual investors. Alternative investments have grown tremendously in popularity as a means of diversifying an investor's portfolio while boosting returns.

Private Equity and Pre-IPO

In particular, private equity and pre-IPO technology stocks have been on the minds of many investors. While private equity offers a potential higher return, companies in the space are not typically as liquid, and may take longer to be profitable than originally expected.

Private equity is an alternative investment that refers to funds used by investors to purchase shares in other businesses. These companies can then be run by managers who specialize in making investments. Private equity firms raise capital from a variety of sources including limited partners – individuals or institutions who provide capital for investment – and sometimes through debt financing.

Private equity firms use this capital to invest in different types of businesses, ranging from startups to large corporations or non-profit organizations. The focus of private equity firms is typically on buying out minority stakes in other companies rather than controlling outright ownership. This enables them to make investments without having all the liabilities that come with running a company, such as employee pension obligations or debt payments.

Further, pre-IPO stocks are becoming increasingly popular among individual investors. Pre-IPO refers to stocks that have not yet been listed on a public stock exchange. Investors purchase these stocks prior to their initial public offering (IPO) date, which is when they become publicly traded for the first time.

Pre-IPO shares tend to be less expensive than regular shares because there is less demand at this point in time. As a result, pre-IPO shares offer potential greater earnings and dividend growth relative to their regular equity counterparts once listed on the stock exchange.

Rebalancing Your Portfolio

Portfolio re-balancing is an essential part of investing. Whenever your portfolio changes in value, you should take steps to ensure that your investments are still diversified and have exposure to a variety of asset classes and risk levels.

Many investors don't rebalance their portfolios regularly enough, which can cause them to miss out on the potential benefits that come from allocating new money to under-represented areas of the market.

The default position for most investors is usually too much cash relative to their other holdings. In fact, many investors end up holding cash just because they haven't bothered rebalancing over time.

Holding too much cash will minimize your returns because when markets are generally weak, holding zero-return assets will cause you to lose out to inflation. On the other hand, when markets are strong and interest rates are low, having extra cash can be a drag on returns due to investment opportunity cost (the value of foregone returns).

Keeping close tabs on asset allocation during periods of market stress is another reason why it's important to reevaluate your portfolio's composition periodically. You know your own financial situation best so determine how often you need to reallocate your assets based on your individual needs and circumstances.

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