

“Why should I start investing today?”

The decision of how to invest your money is one of the most important determinations in preparing an effective wealth management strategy. Asset allocation is the distribution of your assets among various types of investments, such as large company stocks, small company stocks, bonds and cash. By allocating your assets to investments with different characteristics, the risk of any one investment performing poorly can be significantly reduced.

Of the three factors that drive the performance of a portfolio - *asset allocation*, *investment selection*, and *market timing* - asset allocation is by far the most significant element of performance. Many investors focus on the daily decisions of what security to purchase and concern themselves with the appropriate time to purchase or sell these securities. Although these are important decisions, it is more important that you focus on what allocation is appropriate for you and work with your advisor for guidance in a long-term implementation of your asset allocation.

The decision of how to allocate your money is not an easy one. It involves a complex balance between risk and return. Striving to achieve higher returns brings with it the possibility of significant loss in the value of your portfolio. Alternatively, the risk of not reaching your financial goals due to an overly conservative stance is equally significant.

As you and your advisor consider the issues involved, your financial goals will need continuous monitoring and evaluation. It is important to keep your allocation consistent with your investment objectives. Many investors tend to make sudden, and often dangerous, decisions about their investment portfolios in reaction to market news or other external factors. Very few investors have succeeded in achieving exceptional returns through market timing and investment selection. It is in the best interest of your overall strategy to work with your advisor to create a solid, long-term strategy and monitor it closely. You will need to periodically rebalance your investment portfolio as it grows. You may also need to re-distribute assets as you approach certain life events, such as retirement.

Your advisor has asked you a series of questions that can be used to quantify the balance between risk and return that is appropriate for you. The three key aspects to consider when making this decision are:

Time Horizon

The time until you will need to draw from your investments. If you have a relatively short time horizon, a more conservative allocation is appropriate.

Investment Objective

The purpose for which your investments will be used. Objectives such as long-term wealth accumulation or retirement often lead an investor to a more aggressive portfolio.

Strategies to understand in achieving your long-term investment goal

Before you can begin investing to achieve the above goal, you need a fundamental understanding of a few key financial terms.

A vast array of books, magazines, and Internet sites are devoted to investing. However, you don't need to be an investment expert to make sound decisions about funding your future. Here are some basic strategies to choosing the right investment:

-Asset allocation.

This is a strategy for balancing risk within a portfolio. A percentage of your dollars is placed in financial products that preserve principal. The remaining investment dollars are placed in financial products that seek growth. The goal is to achieve the highest expected return without taking on more risk than you want to accept.

-Diversification.

After you decide on an asset allocation, you need to diversify your money into a number of different types of financial products. This will help reduce the risk of poor performance as a result of any one type of investment having a major impact on overall portfolio performance.

-Stocks.

By investing in stocks, you have an ownership stake in a company. If profits are high, your share price should increase. A distinct advantage of owning stock involves the potential for higher returns (compared to other investments), which historically have outpaced inflation.

-Bonds.

These are an IOU or certificate representing debt issued by a corporation, municipality, or the federal government. The issuer promises to pay you back the full loan amount (known as the face value or principal) at a stated time (called the maturity date). Sometimes called fixed-income investments, which offer you a steady income, bonds are usually less volatile (depending upon how close they are to maturity) than stocks. It is important to note that bond prices move up and down based on interest rates, and you could lose money if you don't hold them until the maturity date.

-Mutual funds.

These are simply pooled money of many individuals invested in stocks, bonds, or money market securities—or some combination of these three. There are thousands of different types of funds, and they tend to be very popular and offer these benefits:

Janis Financial

Minimum investment requirements
May be diversified to decrease risk
Professionally managed
Easy to purchase and redeem
Automatically reinvest dividends and capital gains

Stocks have historically been a great investment for money you won't need for at least five years. Well-chosen mutual funds can be an affordable way to get in on this growth. Many individuals don't invest in mutual funds because they don't feel they have the time to investigate or learn more. Others stop themselves because of options overload—feeling overwhelmed by all the different products and types to choose from. Some think a great amount of money is needed to begin. Finding a mutual fund is not as difficult as it may seem.

Watching Your Money Grow

Many of us don't realize how fast our money grows over time—we call this the miracle of compounding. The following table shows how a monthly deposit of \$100 grows over a period of years. Compounding is monthly, and deposits are made at the beginning of the period. Take a look.

Interest Rate (%)	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
1.5	6,234	12,954	20,197	28,003	36,418	45,487
2.0	6,315	13,294	21,006	29,529	38,947	49,355
2.5	6,397	13,646	21,858	31,162	41,704	53,648
3.0	6,481	14,009	22,754	32,912	44,712	58,419
3.5	6,566	14,385	23,698	34,788	47,996	63,727
4.0	6,652	14,774	24,691	36,800	51,584	69,636
4.5	6,740	15,177	25,738	38,958	55,507	76,223
5.0	6,829	15,593	26,840	41,275	59,799	83,573
5.5	6,920	16,024	28,002	43,762	64,498	91,780
6.0	7,012	16,470	29,227	46,435	69,646	100,954
6.5	7,106	16,932	30,519	49,308	75,289	111,217
7.0	7,201	17,409	31,881	52,397	81,480	122,709
7.5	7,298	17,904	33,318	55,719	88,274	135,587
8.0	7,397	18,417	34,835	59,295	95,737	150,030
8.5	7,497	18,947	36,435	63,144	103,937	166,240
9.0	7,599	19,497	38,124	67,290	112,953	184,447
9.5	7,703	20,066	29,908	71,756	122,872	204,913
10.0	7,808	20,655	41,792	76,570	133,789	227,933

Let's face it, the real power of compounding lies in long-term investing. At the rate of six percent, you will have \$7,012 after five years. But, look what happens to your monthly contributions after 20 years—you have more than \$46,000!

I hope this information has helped you understand the basic elements of investing. As we move forward in designing your personal financial model, I recommend that you periodically refer back to this documents as part of your ongoing education.

