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A 3-Step Asset Allocation Strategy

Perhaps the most important move you can make for your investments is to properly diversify your portfolio. By investing in a mix of stocks, bonds, and cash, you'll reduce the risk of a significant loss.

How you combine your diverse mix of investments is called your asset allocation. Asset allocation is a highly individual determination that's based on your risk tolerance, financial goals, and age. Asset allocation will spread out your investments among a mix of three types:

✔ **Stocks** — Stocks tend to be the riskiest investment. However, while they have the highest potential for loss, they also offer the greatest potential for gain.

✔ **Bonds** — Bonds tend to be less risky than stocks but more risky than cash equivalents.

✔ **Cash** — Cash equivalents, such as savings account, certificates of deposit, and money market accounts, typically offer the lowest risk and the lowest potential returns.

The benefits of allocating your assets across the three types of investments include:

✔ Proper asset allocation diversifies your portfolio among the three types of investments, reducing your risk.

✔ Allocating your assets between the three types allows you to tailor your portfolio to your specific goals.

✔ You can help manage the level of risk and volatility of your returns.

Considerations

To properly allocate your investments across stocks, bonds, and cash, consider this three-step approach to asset allocation:

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Asset Correlation

Asset correlation is the measure of how assets move in correlation to one another. Highly correlated assets move in the same direction at the same time, while negatively correlated assets move in the opposite direction from one another — one moves up as the other moves down.

The theory of asset correlation is that you can reduce risk and increase returns by investing in asset combinations that are not correlated. The basic rule has been that equities go up when economies do better, and bonds do better when economies go down. Their low correlation to one another is why this has been effective over the years.

However, recently, bond markets have become more highly correlated to equities. This change in correlation has become a new risk factor investors need to think about when developing their asset allocation. It's not just about the percentage of bonds in your portfolio anymore, but the types of bonds as well. The new thinking is that you have to plan your investment strategy around volatility because of the change in bond behavior. Please call if you'd like to discuss asset correlation in more detail. ○○○

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A 3 Step

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Step 1: Be Honest About Your Level of Risk Tolerance

Some people think that investing in a relatively unknown start-up company with a great idea is a sound investment, while others prefer to stick with stable companies with household names. In other words, people's risk tolerances vary.

If you don't mind the more dramatic ups and downs associated with higher-risk investments, you may see higher return potential. But if you can't stand the thought of putting your hard-earned money in an untested company, you're probably better off sticking with relatively low-risk allocations, even though you may see more modest returns.

Step 2: Write Down Your Financial Goals

What are the purposes of your investments? Are you saving to buy your first home? Planning to send your children to college? Looking to retire early? Whatever your financial goals are, knowing them will help you determine how to allocate your assets to help you meet them.

Step 3: Consider Your Time Horizon

How much time do you have before you need money for your goals? Is retirement a long-term goal, with 30 years to go? Or is it a short-term goal, with only five years to go? If you're just starting a career, do you have short-term goals, like buying a house, as well as intermediate-term goals, like sending your children to college?

There's no consensus on exactly how much of your portfolio should be in any of the three investment categories at any time. However, broadly speaking, the further away in time you are from your financial goals, the more aggressively you can be invested.

For example, if your financial goal is retirement and you're just starting out, you'll want to have a higher percentage of your assets invested in stocks and the lowest percentage in cash. As you near retirement, though, you will want to reallocate your assets more conservatively, so that a larger percentage is in bonds and cash than in stocks.

Please call so we can help you allocate your assets given your unique situation. ○○○

Does Buy and Hold Still Make Sense?

If you feel the stock market has been turbulent the last couple of years, you would be right. Consider these facts from the summer of 2014 (Source: InvestingHaven.com, July 2016):

- ✔ Crude oil went through its sharpest correction ever, losing over 70% in 18 months.
- ✔ The dollar rally was the sharpest in many decades.
- ✔ Stock markets went through three flash-crashes never seen before.
- ✔ Many individual stocks lost between 50% and 70% of their value, as stock indexes remained close to all-time highs.

During what we think of as normal times, stocks increase over time with slight market corrections. But in the last few years, central bank policies have disrupted normal market behavior, which has caused some difficult market conditions. Some call it a whole new world of investing. So does a buy-and-hold investment strategy make sense in these times? There are various views on this, but the consensus seems to be that it still works, although you may need to do it differently than in the past.

There are several advantages to buy-and-hold investing:

- ✔ Fewer commissions because you are not trading as often.
- ✔ Tax benefits from lower long-term gains tax rates.
- ✔ People feel less likely to get out of the market during periods of turmoil.
- ✔ Not needing to pay attention to the market as much by sticking to the strategy.

The last point is exactly what is different about today's buy-and-hold strategy. You still need to keep an eye on your strategy. The new requirements for a successful buy-and-hold strategy include:

- ✔ Only consider buying stock in best-in-class companies with a decent track record for growth.
- ✔ Hold a diversified portfolio so you are not subject to the risk of an individual company.
- ✔ Be ready to get out of any stock once it falls 10% or more from the price you paid.
- ✔ Rebalance your portfolio on a regular basis by scaling back portions of your buy-and-hold portfolio that do better than other parts.
- ✔ Get rid of investments that no longer meet your needs. If you put the portfolio together when you were in your thirties and are now in your fifties, your objectives and risk tolerance have probably changed.

At one time you could feel comfortable that your long-term buy-and-hold strategy would be relatively smooth with solid returns. However, the up-and-down market is now taking your portfolio for a bumpy ride that could result in significant losses. The bottom line is that we are in different times and you have to be diligent about watching your investments. ○○○

10 Common Investor Mistakes

The reason nonprofessional investors often err was well-known even before the new science of investment psychology was born: we're only human, and something happens deep within us when we're handling our own money that doesn't happen when we're handling someone else's money. When it's our own, it's the vehicle for realizing our dreams and warding off our waking nightmares, and every decision we could make looms larger than life.

Here are 10 of the most common mistakes individual investors make while trying to do the best they can:

Falling in love with a stock. There are a host of reasons for this, among them being we or a relative worked for the company, we inherited it, we like being associated with the company's prestige, or simply that it's been a steady performer for as long as we've owned it. The problem is, however, that the stock won't fall in love with us and won't think twice about losing half or more of its value. This is a case where love makes us blind to deep flaws in a company that may never be repaired.

Catching a falling knife. When a high-flying stock goes bad, it drops fast and hard. But when it does, there are thousands of investors who think it's a steal and buy shares when they see it bounce. What they often learn is that they caught the stock in mid-fall, and like a knife passing right through the palms of their hands, the stock price has a lot farther to fall before finally coming to rest.

Investing on tips. The problem with tips is that the average investor hears them after just about everyone else already has. As a result, we buy the stock at its highest price, and there's no one else who wants to buy it to make it go any higher.

Chasing performance. For many people, stocks only get attractive after they've gone so high for so long that they've reached the end of their run. This is also called rear-view mirror investing, meaning you're more concerned with where the stock has been than where it's going.

Failing to diversify. The best way to get rich in the stock market is to put all your money into one stock. But it only works if the stock goes to the moon. If it goes in the opposite direction, this is also the best way to become poor. It's smartest to spread out your risk as well as your chances of success, not only among more than one stock, but in more than one industry, sector, country, and asset class. The more diversified you are, the less risk you'll bear.

Thinking only short term. This is actually the opposite of investing. It's speculating. There are few part-timers who succeed at this game. The danger is that just like changing lanes too many times in a traffic jam, you're just as likely to fall behind where you might have been had you just stayed where you were.

Playing penny stocks. Inflation hit true penny stocks years ago. The strict definition is stocks priced less than $5 a share with daily trading volumes of less than 100,000 shares. Usually, the companies have net tangible assets of only a few million dollars and a short operating history. The odds of hitting it big with these are about the same as winning the lottery, if not worse. Owned mostly by individual investors and the founders of the company, penny stocks are notoriously volatile and risky.

Waiting to break even. It's been said that more money has been lost by investors waiting to recoup their initial investments than for any other reason. Successful investors know when it's time to cut their losses and look for a better opportunity.

Being too conservative. This syndrome is the opposite of most of the previous mistakes. In this case, investors are so afraid of losing money that they fail to put enough money in growth vehicles to stay ahead of inflation. As a result, the buying power of their portfolio declines year by year, courting the risk they'll have a lower standard of living the older they get.

Investing without a plan. This is another way of saying all of the above. Sound financial plans match your income, resources, and risk tolerance with an investment strategy providing the discipline that can take emotions out of the equation. Please call if you'd like help developing an investment strategy. ○○○

Financial Thoughts

In 2016, e-commerce revenue accounted for 10% of all spending, the first time this milestone was reached, rising 17% overall. Approximately 50% of e-commerce searches start with Amazon (Source: *Fortune*, November 1, 2016).

Homes in highly rated public school districts are about 49% costlier than the national median price of $269,000 (Source: Realtor.com, 2016).

When asked how much they spend on pets each month, 32% of respondents said less than $50, 26% said $50 to $79, 20% said $80 to $120, and 22% said more than $120 (Source: Money.com, November 2016).

In the latest national financial literacy test, a 30-question test designed to measure participants' ability to earn, save, and grow their money, the average score for all age groups was 62.4%. The average score increased based on age, ranging from 53.6% for 10- to 14-year-olds to 76.8% for those 50 years and older (Source: National Financial Educators Council, 2016).

Of the 62 million women working in the United States, only 45% participate in a retirement plan (Source: A Secure Life, 2016).
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News and Announcements

Happy Summer everyone! Today I find myself on the eastside of Madison, Wisconsin, savoring maybe the best cup of dark roast coffee I've ever had. Kudos to True Coffee Roasters…And thanks to my 10:30 appointment for the coffee tip — you know who you are.

This time of year for me is so much fun; yet it goes by so fast. My days and weeks are packed with work, biking, cookouts, weddings, family, baseball games, and the list goes on and on. I love it! Oh, did I mention fireworks on the river?!? Did I mention our Annual family golf tournament? The Georgie is now in its 16th year? Brad is the reigning champ after a three-peat by my nephew, Jon Moore. Too much fun!

This cup of coffee helps me slow down and realize how lucky I am. Lucky and blessed; fortunate also comes to mind. I mentioned this last quarter, but I am lucky my Dad took a flyer on an unproven kid fresh out of John Deere back in 1982. I'm blessed that over these 35 years, I've come to know so many really good, fine people we call friends, as well as clients. To all of you, "Thank you," as you are the reason my staff and I come to work every day and work our tails off.

Speaking of staff, I'm so fortunate to have a staff that is absolutely superb. I'm always amazed at the amount of work they put out in a given day. By comparison, they are the 1929 Yankees. Please indulge me for a few more sentences for a thought or two. After much ballyhoo, the DOL Fiduciary Rule finally seems to be official. It has been a tremendous amount of work here at Weitzel Financial Services, Inc., but I believe it has been a 100% "good thing." You will be hearing from us soon, if you haven't already. Or, pick up the phone and give us a jingle.

Ok, on to the Boys of Summer. My White Sox are actually doing better than I expected; hovering around .500, playing hard, and waiting for the young guys to get to the Majors. As for your Cubbies, it's really hard to repeat, except in the case of Jon Moore. The Cubs starting pitching needs a lot of work, but I wouldn't count them out just yet.

So my second cup of java is now cold, so I guess I'm done here. Thank You for your trust, confidence, and friendship; all of us really appreciate it. P.S. – Wear sunscreen.

Jim