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Be sure your asset allocation fits you

There is no one-size-fits-all solution

According to a recent survey done by Franklin Templeton, Canadians are generally quite optimistic about their future, with 92% looking forward to retirement. On the whole, Canadians are planning on traveling, spending time with friends and family, and pursuing hobbies. Despite the optimism, 82% are concerned about paying expenses in retirement. Specifically, 43% of Canadians between the ages of 55-64 years old are concerned about managing retirement income to meet expenses.

A good chunk of this concern can likely be attributed to remaining scars from the financial crisis. As a result, a lot of investors have been taking on excessive risk, jumping into the markets fully exposed but without a strategy. They've moved heavily into equities, hoping to hit home runs and rebuild retirement nest eggs. This is risky behavior for any investor, but especially for those nearing or already in retirement.

However, contrary to the old saying, desperate times do not call for desperate measures. For investors these times call for rational analysis and planning. Investing too heavily in equities without maintaining a properly balanced portfolio is a sure-fire way to further shrink an already reduced nest egg.

The planning begins with reviewing asset allocation and re-balancing. Investors must assess the level of risk present in their portfolios and

determine whether it is suitable for their particular situation. They need to go back to the basics of financial planning and create a healthy balance between cash, fixed income, and equities.

Jack Bogle, founder of the Vanguard Group, has a rule of thumb when trying to determine a conservative asset allocation. He recommends holding the same amount of cash and fixed income as your age in years. That is, a 70 year-old's portfolio should have 70% in cash and fixed income. The basic premise is that younger investors can handle more risk because their earning power is greater and they have a longer time horizon. Conversely, older investors are no longer in their peak earning years and therefore preservation of capital becomes much more of an issue. Of course this is merely a guideline, so adjustments ought to be made according to individual risk tolerance and preferences.

Within each asset class, tactical changes should take advantage of short-term trends and opportunities. For instance, investors might change the maturities in their fixed income portfolio based on the positioning of the yield curve or, depending on the environment, either increasing or decreasing their exposure to higher yield corporate bonds.

Instead of irrationally reacting to market events, investors must soberly assess their holdings, stay focused on the horizon and remain true to their

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long-term goals. Taking uncalculated risks in a volatile market is not smart investing.

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