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Financial Briefs

JANUARY 2025

A 3-Step Asset Allocation Plan

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 accounts, 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 among 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:

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 tolerance

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Assessing Your Risk Tolerance

You need to assess how much risk you are willing to take to obtain potentially higher returns. However, it is one thing to theoretically answer questions about how you would react in different circumstances and quite another to actually watch your investments decrease significantly in value. What you are trying to assess is your emotional tolerance for risk, or how much price volatility you are comfortable with. Some questions that can help you gauge this include:

- **What long-term annual rate of return do you expect to earn on your investments?** Your answer will help determine the types of investments you need to choose to meet that target. Review historical rates of return as well as variations in those returns over a long time period to see if your estimates are reasonable.
- **What length of time are you investing for?** Some investments such as stocks should only be purchased for long time horizons. Using them for short-term purposes may increase the risk in your portfolio, since you may be forced to sell during a market downturn.
- **How long are you willing to sustain a loss before selling?** The market volatility of the past several years will give you some indication of how comfortable you are holding investments with losses.
- **What types of investments do you own now and how comfortable are you with those investments?** Make sure you understand the basics of any investments you own, including the historical rate of return, the

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A 3-Step

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varies.

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 for meeting those goals.

How much time do you have before you need your 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 farther away in time you are from your financial goals, the more aggressively you can be invested.

If your financial goal is retirement, for example, 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'll 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. ▐▌▌

Watch Out for These Portfolio Mistakes

Investing is a gradual process — purchasing some investments and selling others as the years go by. After a period of years, this can result in a mixture of investments that don't fit your overall strategy. Thus, periodically review your portfolio, watching out for these mistakes:

- **You don't use an asset allocation strategy.** Many investors select individual investments over the years, not considering their portfolio's overall makeup. Add up all your investments and calculate what portion is invested in each category. The basic categories are stocks, bonds, and cash, but each of these also has many subcategories. Since subcategories can have very different risk levels, review those as well. Assess your current allocation and determine whether it fits your personal situation.
- **You have too many investments that aren't adding diversification to your portfolio.** Diversification helps reduce the volatility in your portfolio, since various investments will respond differently to economic events and market factors. Yet it's common for investors to keep adding investments to their portfolio that are similar in nature. This does not add much in the way of diversification, while making the portfolio more difficult to monitor. Before adding an investment to your portfolio, make sure it will further diversify your portfolio. Keep in mind that diversification does not ensure a profit or protect against loss in a declining market.
- **Your portfolio's return is lower than benchmark returns.** While everyone likes to think their portfolio is beating the market averages, many investors simply aren't sure. Review the return of each component of your portfolio, comparing it to a relevant benchmark. While you may not want to sell an investment that has underperformed for a year or two, at least monitor closely any investments that significantly underperform their benchmarks. Next, calculate your portfolio's overall rate of return and compare it to a relevant benchmark. Include all your investments — those in taxable accounts and retirement accounts. Also be sure to compare your actual return to the return you targeted when setting up your investment program. If you aren't achieving your targeted return, you risk not reaching your financial goals. Now honestly assess how well your portfolio is performing. Are major changes needed to get it back in shape?
- **You trade too frequently without adequate research.** With so many choices and so much information, it's tempting to trade often based simply on other people's recommendations. Yet, besides the tax and costs associated with trades, frequent traders often underperform those who trade less frequently. Instead, purchase investments you are willing to hold for the long term.
- **You don't consider income taxes when investing.** Using strategies that defer income taxes for as long as possible can make a substantial difference in your portfolio's ultimate size. Some strategies to consider include utilizing tax-deferred investment vehicles (such as 401(k) plans and individual retirement accounts), minimizing portfolio turnover, selling investments with losses to offset gains, and placing assets generating ordinary income or that you want to trade frequently in your tax-deferred accounts. ▐▌▌

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Assessing

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largest one-year loss, and the risks the investment is subject to. If you don't understand an investment or are not comfortable owning it, you may be tempted to sell at an inopportune time. Over time, your comfort level with risk should increase as your understanding of how risk impacts different investments increases.

- **Have you reassessed your financial goals recently?** Periodically, your financial plan may need to be revamped. Otherwise, you may find you won't have sufficient resources in the future to meet your goals. Based on your current investment values, determine what needs to be done to meet your financial goals. You may need to save more, change or eliminate some goals, or delay your retirement date.
- **Do you understand ways to reduce the risk in your portfolio?** While all investments are subject to risk, there are some risk-reduction strategies you should consider for your portfolio. These strategies include:

  Diversify your portfolio. You should diversify among several different investment categories, including cash, bonds, and stocks, as well as within investment categories, such as owning several types of stocks. A properly diversified portfolio should contain a mix of asset types whose values have historically moved in different directions or in the same direction with different magnitudes.

  Stay in the market through different market cycles. Remaining in the market over the long term helps to reduce the risk of receiving a lower return than expected, especially for more volatile investments, such as stocks.

  Use dollar cost averaging to invest. Rather than accumulating cash so you have a large sum to invest, invest small amounts regularly. Dollar cost averaging is a method of investing a certain sum of money in set amounts at regular intervals. This spreads your purchases over a period of time, keeping you from making one major purchase at high prices. Since you are investing a set amount, you purchase more shares when prices are lower and fewer shares when prices are higher. While a valuable investment strategy, dollar cost averaging does not ensure a profit or protect against losses in declining markets. Before starting a program, consider your ability to continue purchases during periods of low price levels. This strategy requires the discipline to invest consistently, regardless of market prices, and can help develop a habit of regular investing.

Please call if you'd like help assessing your risk tolerance. ▮

A Portfolio Tune Up

Over time, the weighting of asset classes in your portfolio can change. After spending a great deal of time to develop an asset allocation strategy, it can be frustrating to see these changes. However, a simple rebalancing of your portfolio may be all that is needed to get your portfolio back in line.

Since different investments earn different rates of return, their values grow at different rates, changing the weightings in your portfolio. These changes can cause your portfolio risk to increase or decrease, making rebalancing necessary.

When should you rebalance?

While you should definitely rebalance when your financial objectives or life circumstances change, you also want to rebalance on a regular basis. There are three basic methods to consider:

- **Rebalance annually.** Choose a date to rebalance, perhaps at the beginning of the year, when you receive your annual statements, or at the end of a quarter. On that date every year, compare your current allocation to your target allocation. Any allocations off by more than 5-10% would require rebalancing. Once you have rebalanced, don't be tempted to make other rebalancing changes during the year.
- **Rebalance when your allocation differs from your target allocation by a designated percentage.** With this type of rebalancing, you monitor your portfolio more frequently, perhaps monthly. Once your allocation moves from your target allocation by a predetermined percentage, perhaps 5-10%, rebalance your portfolio.
- **Rebalance based on current market conditions.** With this approach, rather than one specific percentage for each asset class, you might have a target range. For instance, you might allocate anywhere from 30% to 50% of your total portfolio to large-capitalization stocks. Depending on your views of the market, you might want to allocate near the low or high end of that range. Thus, your allocation will change as your views about the market change.

How do you rebalance?

There are many ways to change your allocation among investments. You can purchase additional amounts of the investment that is underrepresented in your portfolio. You can sell investments in overrepresented portions and invest the proceeds in underrepresented portions. Any withdrawals can be taken from overweighted investments. Income from your portfolio, such as dividends and interest, can be invested in underweighted investments. Ultimately, you need to consider tax ramifications and your own individual investment preferences. Please call if you'd like help rebalancing your portfolio. ▮

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News and Announcements

From The Flinton Household

“When I started counting my blessings, my whole life turned around." -Willie Nelson

My mother-in law used to always say, “Don’t block the blessing.” I’ve come to recognize that you never know what small act that someone may be engaging in as an attempt to bless someone else. I have a routine when I go to a busy convenience store where I take my empty coffee cup and pay for it prior to filling it with coffee and leaving. This past week I was mid-routine when I came to the automatic creamers, which were all completely empty. I asked a clerk how long it would take to switch out. He looked up, did a quick calculation, and said three minutes. I’ve got the time. He quickly got to work and I happened to strike up a conversation with another lady that also wanted her morning cup of joe to also be finished with some French vanilla creamer. The worker was furiously switching out creamers with the precision of a Formula 1 pit crew member. The three of us had been chatting casually, and the gentlemen said, “Thank you both so much for your patience, I’m going to take care of your drinks today, thanks again for waiting.” At that moment I had a momentary thought to say I had already purchased the drink. At which time pandemonium would ensue. I also at that moment heard my late mother-in law whisper, “Don’t block the blessing.” Although I had already paid, I told the man that was incredibly nice, and said “Thank you so much.” He left with his good deed readily accepted, and even though I had paid, it didn’t change the outcome for anyone. This year I hope to be even better at recognizing others good deeds and making a concerted effort to “Not block the blessing.”

Here's to a blessed 2025!

Andrew K. Flinton, CFP®
President

From the Rudy Household

This past December, we proudly celebrated Kayla’s graduation from Texas A&M University’s Mays Business School. She completed the five-year program a semester early, earning both a bachelor’s in accounting and a master’s in management information systems. Throughout her time at A&M, Kayla demonstrated exceptional dedication, balancing challenging coursework with a series of leadership roles. She served as President of Aggie Women in Business (AWIB) and as a Peer Leader for the Freshman Business 101 course.

The graduation ceremony was a special occasion, recognizing approximately 1,100 doctoral and master's candidates from a variety of disciplines. Her immediate family, all four of her grandparents, aunts, uncles, cousins, and many friends joined her at the event. It was an incredibly joyous day, filled with pride and excitement.

Looking ahead, Kayla will join Deloitte Consulting in their Dallas office next fall. In the meantime, she is focused on studying for her CPA exam, working part-time, and planning a few well-deserved vacations while her travel schedule is more flexible. We are excited for Kayla as she embarks on this new chapter of her life, and we wish her continued success in her career with Deloitte and in everything she chooses to pursue!

Chad A. Rudy, CFP®, RSSA®
Executive Vice President - TX

From the Sterling Household

It’s hard to believe that 2025 is already here. My daughter will be graduating from high school this May and starting college in Massachusetts this fall. The nest will be half empty, which is nearly impossible to imagine. I am thrilled about the adventures she will surely have and sad to think of her being a plane ride away from me.

The night she received her college acceptance letter, I went to bed remembering another night that had taken place many years before. She was four and I was lying in bed with her at bedtime. She started talking about the future and eventually said something about where she would live when she was a grown-up. I told her that when she was grown, she would move out on her own. She immediately started sobbing and said she was never going to move out. I assured her that someday that’s what she would want to do but that she was welcome to stay with us longer, if not. She’s always been fiercely independent, so I remember being so surprised by her reaction. She cried and cried and made us promise that she could stay forever.

Turns out, I was right – of course! She’s excited to start school in the fall and experience life in the Northeast. She’s worked hard the last few years, and I’m thrilled that she has the opportunity to flap her wings a little.

Sylvia L. Sterling, CFP®, CDFA®
Senior Vice President

Retirement Investment Advisors, Inc.
Holiday Hours

Martin Luther King, Jr. Day
Monday, January 20, 2025 - Closed

President’s Day
Monday, February 17, 2025 - Closed