The Stan Clark Financial Team's

PERSPECTIVES

An excerpt from "Perspectives" - Volume 5 – Issue 4

Asset allocation

Asset allocation: The best asset mix for your needs

By Heather Guzak - Associate Investment Advisor

We've been discussing *asset allocation* for a while now. To review, asset allocation is the mix between equities and fixed income. We've learned that the risks of each asset class depend on the length of time you can invest for.

So, how do we determine the best mix for your needs?

Those are five critical words right there: *best mix* and *for your needs*. Everyone's different and everyone has different needs. In particular, we need to consider: a) how much you need; and, b) when you need it.

We've analyzed the risks, returns and effects of inflation over the past 100-plus years to figure out the best mix for every time period. As we've said before, money that you need in the short-term should mostly be in fixed income. And money that you don't need for a long time can go mostly into equities. But life is more complex than just now versus a long time from now. What about those times in-between?

The fact is, people have needs at all stages of their lives. The challenge, however, is: How do you adjust for that? The Stan Clark Financial Team has developed our own software to calculate your overall best mix.

Here's how it works. First, we do some planning to figure out how much money you'll likely need from your portfolio each year for the rest of your life.

Our program then creates a hypothetical portfolio for each need. Each "portfolio" will have its own asset mix, based on how long it is until the money is needed. Now we know how much money to put aside today to pay for each need – and how much of each should be allocated to equities. We then add all these hypothetical portfolios together to calculate an *overall asset mix*. The resulting overall mix is optimal for you, based on your own specific needs.

For example, let's say you are planning to retire in three years. You expect to need $50,000 from your portfolio in that first year of retirement. If you were to carve off a separate portfolio to fund that need, how would you invest that portfolio? Three years isn't very far away, so we wouldn't want to put much of it into equities. For a conservative investor, our program would suggest putting only 14 percent of it into stocks.

Let's say you need a bit more the next year: $51,500. This would be four years away – so you could put a bit more into equities for the portfolio to provide for this need. Our program would suggest 21 percent in equities.

Our program does this for every year for the rest of your life. It then adds up all the money you'd need to set aside, and all the amounts that should be invested in equities to meet your needs. The result is an overall best mix for your total portfolio. In this example, it might come out to 64 percent in equities. We call this the *needs-based equity target*, because it determines the best mix equity target, based on your needs.

This is the mix that makes the most sense, based on objectively looking at history and your needs. But we also need to consider how comfortable you are with the risk of holding that percentage in equities. In the next issue, we'll talk about how we find your comfort level with risk.

Heather Guzak is an Associate Investment Advisor for the Stan Clark Financial Team at CIBC Wood Gundy.

She is responsible for the day-to-day monitoring and maintenance of client accounts and investment portfolios.

To learn more about CIBC Wood Gundy, the Stan Clark Financial Team and the many ways we can help manage your wealth, please contact us by phone or by email as listed below.

CIBC Wood Gundy | The Stan Clark Financial Team
Where planning, investing and behavioral finance meet

Phone: (604) 641-4361 Toll free: 1 (800) 661-9442 Fax: (604) 608-5211 Email: StanClarkFinancialTeam@cibc.ca www.stanclark.ca