Asset allocation Your most important investment decision.mp4

Speaker1: Your first and probably your most important decision about investing is how to divide your money into different types of assets. This is called asset allocation. Hi, I'm Elaine Lou. Over the next several videos, we're going to talk about asset allocation, specifically what it is, the different types and how they differ. And finally, how do you decide what the best asset allocation is for you? There are many ways of classifying assets, so it can be confusing. For example, mutual funds can be broken out into hundreds of different groupings. So it's easy to lose sight of what's important. Some typical mutual fund groupings might be Canadian balanced or US small cap growth, but the most basic division is by asset class. Almost everything can be broken down into one of two types equities or fixed income. And if it's not just one of these, it is usually a blend of the two. These two asset classes are often called stocks and bonds, which are the most common types of each. Equities and fixed income are so different from each other that the balance between them dramatically affects the risk and return of your portfolio. Because the balance is so important, you need to focus on it first.

Speaker1: But to do that, it helps to know what they are and how they are. Different equities represent ownership in a business. When people think about equity, the first thing that usually comes to mind is the equity they have in their home equity. In your home is the value of your home less whatever mortgage you might want it when you own shares in a company, the concept is the same value of a stock as the value of a business, less any debt the business might have owners of shares also on the profits of the business with fixed income. Rather than being an owner, you are a lender, usually with fixed income. The investor is paid a fixed rate of interest. The income in principle can be guaranteed by government or an obligation of a company. Fixed income can also vary by the term, meaning how long it is before they have to return your money. Fixed income investments include things such as Treasury bills, bonds and term deposits. In the next article, we'll talk more about asset allocation. We'll look at how these two basic types of assets differ in risk and return and why it's so important to get the mix right.