

Asset Allocation
The key to
Financial Security

Samuel Blankson

Copyright © 2005, by Samuel Blankson. All rights reserved including the right to reproduce this book, or portions thereof, in any form except for the inclusion of brief quotations in a review.

ISBN: 1-4116-4091-8

ACKNOWLEDGEMENTS

I give all thanks to God for filling my cup abundantly. Special thanks to my wonderful wife Uju, for curbing my greed and always reminding me to apply asset allocation.

CONTENTS

| | |
|--|-----------|
| ACKNOWLEDGEMENTS | IV |
| CONTENTS..... | V |
| INTRODUCTION..... | 1 |
| CHAPTER 1 | 2 |
| What Is Asset Allocation? | 3 |
| Benefits Of Applying Asset Allocation To Your Investment Portfolio? | 3 |
| Investment Categories..... | 4 |
| Security..... | 5 |
| Buy And Hold..... | 5 |
| Momentum..... | 5 |
| Lifestyle..... | 6 |
| Structure For Security | 6 |
| CHAPTER 2 | 10 |
| Determining Your Asset Allocation | 11 |
| Considerations | 11 |
| Age..... | 11 |
| Current Financial Situation | 11 |
| Age | 12 |
| Below 30 | 12 |
| 30 To 50 | 13 |
| 50 Plus | 14 |
| Your Current Financial State | 15 |
| The Poor..... | 15 |
| The Well Off..... | 16 |
| The Rich..... | 16 |
| Your Aspirations..... | 17 |
| CHAPTER 3 | 18 |

Asset Allocation

Applying Your Asset Allocation 19
 Security Definition..... 19
 Buy And Hold Definition..... 20
 Momentum Definition 20
 Lifestyle Products Definition 21

Allocation Distribution Within The Asset Classes 23
 Over Diversification..... 23
 Security Diversification..... 24
 Buy And Hold Diversification 24
 Momentum Diversification 27
 Lifestyle Diversification..... 27
 Asset Class And Asset Type Diversification 28
 Building Wealth Through Redistribution..... 28

Summary To Asset Allocation 30

NOTES 31

OTHER WORKS BY SAMUEL BLANKSON 33

ABOUT THE AUTHOR..... 56

INTRODUCTION

Asset allocation is the key factor that will determine the duration and in some cases the probability for success in your financial freedom. Without a proper asset allocation in place, your investments are constantly at the risk of being wiped out by an unpredictable financial or economic disaster.

Divorce settlements, lawsuits, business failures, stock market crashes, bank failures, fraudsters, natural disasters, terminal illness, or death, are all potential life events, against which you have to protect yourself and your family. Using asset allocation will help you on the finance front of this battle for security.

A proper asset allocation plan will progressively improve your security, whilst you securely building you wealth. It will give you a secure playing field to grow your financial freedom. No single event will be able to affect your entire portfolio negatively, and in most cases, because of diversification, your portfolio may benefit from such a disaster.

We will look at what asset allocation is, how to plan and implement your own, and how to maintain and grow your assets within the framework of your new asset allocation.

Samuel Blankson

CHAPTER 1

What is Asset Allocation

What Is Asset Allocation?

Asset allocation is the process of allocating funds to different asset classes. This system and tool is used by fund managers and portfolio managers. Determining your asset allocation is more important than actually trading, as a wrong asset allocation will erode your returns, no matter how great the underlying assets in your portfolio are.

Many people including some portfolio managers and professional fund managers forget to apply asset allocation to their private and personal investments. They trade their personal portfolios with ego and emotion, thinking that disasters only happen to others.

Are you like that? Perhaps you have a great savings scheme with your bank, where you have placed all your funds. Remember BCCI. On the other hand, perhaps you have all your funds in your home. Remember the high interest rates of the 80's or the natural disasters that exhausted insurance companies, leaving many homeowners insolvent.

Do not make the mistake, as many before you have, in thinking you are immune to these disasters. They happen to all of us. Take active steps to protect yourself from them by diversifying your assets and allocating your investment funds across different asset, and risk classes.

Benefits Of Applying Asset Allocation To Your Investment Portfolio?

Applying asset allocation principles to your investment portfolio will not only decrease the effects of disasters, but it will help you take advantage of the inherent opportunities hidden within disasters.

For instance, during a market crash, if you applied asset allocation to your investments, you would have the vast majority of your investments in secure assets that would be untouched by the market crash. Therefore, when others are wiped out, and equity and property prices are at an all time low, you can use

Asset Allocation

some of your secure investments to snap up these bargains, thus reaping great profits when the market later recovers.

This is the purpose and benefit of a good asset allocated portfolio, to build your wealth. If you do not begin with this, you could end up having to start over again because some unexpected disaster like the March 2000 stock market crash occurred. Take heed to this wise advice. Start by allocating assets to the four categories: Security, Buy and Hold, Momentum, and Lifestyle.

Lifestyle should be the last category you spend your money in, as financially, it is a hole in the ground. Cars, designer clothes, holidays, electronic gadgets etc, will not return any interest. In some cases as with cars and private jets, they will actually cost you money to keep them. In addition to this, aim to use returns from investments to increase your lifestyle, not your salary, or your main income source(s).

Investment Categories

The proper allocation of investment funds to assets can be achieved by taking your age and current financial position into consideration. Therefore, let us get started and learn about each investment category, and how much you should allocate to it.

The four investment categories that we will now cover are as follows:

1. Security
2. Buy and Hold
3. Momentum
4. Lifestyle

Security

Security products protect you against a negative downside.¹ Examples of these are a will, life insurance, critical illness insurance, health plan, pension plan, and tax-exempt savings instruments.

Buy And Hold

These are assets with tax-exemption or without tax-exemption, and with the potential for a negative downside. These products do not qualify for the Security category. Examples of these are real estate, precious metals (gold, silver platinum etc), precious stones (ruby sapphire diamonds etc), shares, fine wine, funds, and bonds, etc. These products generally have a maximum loss potential of your initial investment plus sales commissions. At the worst case, you will only loose what you put into them (unless you used margin to buy them).

Momentum

Momentum consists of assets with a high risk factor, offering potentially high positive upside returns, as well as potentially high negative downside losses i.e. options, futures, and spread betting etc. These products may have an unlimited loss potential as you could loose more than you originally invested in them.

Momentum products achieve their high potential swings due to gearing. Gearing is the use of a small amount of funds to control a larger amount. For instance, you could purchase a futures contract with \$1,000 of your real money. This \$1,000 could however, be geared to control \$100,000. Thus, a 10%

¹ Financial instruments grow in value, or decrease in value. When they have the potential to grow in value, we say that they have a positive upside. When they have the potential to decrease in value, we say that they have a negative downside.