SUCCESSFULWOMEN

TIMELY INVESTMENT AND FINANCIAL PLANNING TOPICS

Key steps to building your portfolio

Revisiting the basics can build confidence in your financial plan in the face of volatility

In all market environments, it's important to understand the fundamentals behind your investment strategy, portfolio composition and overall financial plan. Understanding the underlying elements will help you advance your financial objectives and can provide well-founded confidence that may just help you stick with your plan in times of uncertainty.

FIRST THINGS FIRST

Three essential elements hold up the structure of a well-balanced portfolio: Risk tolerance, asset allocation and that most ubiquitous of investment terms, diversification. They each complement and strengthen each other.

YOUR REAL RISK TOLERANCE

One of the most critical elements in investing, your tolerance for risk informs your asset allocation, which in turn determines how well-diversified you are. To evaluate your tolerance for risk, it may be most helpful to think in terms of dollars. If your latest monthly statement on your once-$750,000 portfolio now reads $598,000, how are you going to react? That's a 20% decline – not outside the realm of possibility – so if seeing the number raises concerns, it may be time to rethink things with the help of your advisor.

ALIGNING RISK TOLERANCE WITH ASSET ALLOCATION

Your true risk tolerance, along with your time horizon, provides guidelines for allocating your capital among

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Key steps to building your portfolio (cont.)

different asset classes – including stocks, bonds, cash and other investments – and each carries its own level of risk.

The classic balanced portfolio of 60% stocks / 40% bonds can provide a good initial reference point, but there's also nothing wrong with cash, especially for near-term goals. Your advisor can be very helpful here, so it's vital to provide your total financial picture, including securities you hold in other accounts and property such as vacation homes or boats.

Diversification and asset allocation do not ensure a profit or protect against a loss. Investing involves risk and you may incur a profit or loss regardless of strategy selected.

TIME HORIZON COMES INTO PLAY

Your time horizon – when you'll need the money – plays heavily into what asset classes you include in your portfolio. You'll likely make different investment decisions depending on whether you're saving for a short-term goal, like a down payment on a home, or a longer-term one, like retirement.

Someone just starting out may be willing to assume greater investment risk as a trade-off for potentially higher returns given the longer time frame available to offset potential losses, while those approaching retirement may prefer less risky investments.

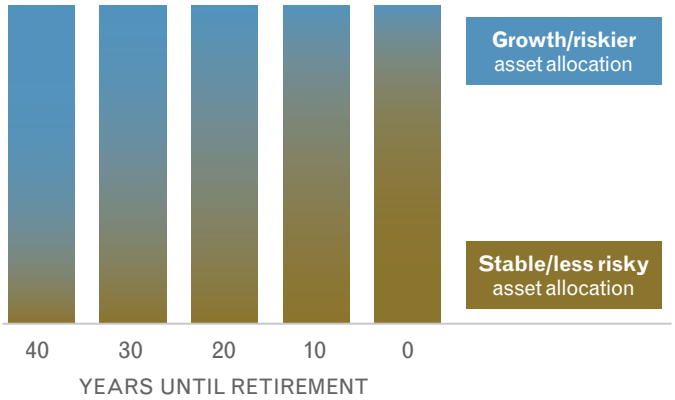
AIM FOR TRUE DIVERSIFICATION

Once you have settled on an overall asset allocation, make certain you are well-diversified within each asset class and investment style. Non-correlated investments, those that move independently of each other, can help your portfolio weather market gyrations better.

AUTOMATE IT

Once you've got the details down, the second stage is to automate your investing – a way of committing to the plan. There are two benefits here: 1. Dollar-cost averaging*, in which you'll buy some assets at higher prices and some at a discount, thus averaging out your total cost basis; 2. Compounding, which is the time-tested strategy of letting your investments continue to grow unabated, allowing your wealth to multiply itself over time.

BALANCING RISK OVER TIME



FOUNDATIONAL ELEMENTS NEED TO BE FLEXIBLE, TOO

The financial markets have an endless capacity to surprise, so it's important to remain flexible and think of your financial plan as dynamic – something built on time-tested principles but also something you revisit periodically and can revise if conditions change fundamentally. ■

NEXT STEPS

- Review your current portfolio to determine where adjustments need to be made.
- If you haven't considered potential loss in dollar amounts, put your assets to the test. What would a 20% loss really look like?
- Set aside time to meet with your professional advisors. They can help you make the necessary tweaks and develop a portfolio that works for you.

* Dollar cost averaging does not assure a profit and does not protect against loss. It involves continuous investment regardless of fluctuating price levels of such securities. Investors should consider their financial ability to continue purchases through periods of low price levels.

Don't overlook these eight common estate planning problems

Regardless of your age or current health, mapping out a clear plan for your estate will help avoid unnecessary turmoil for your loved ones. Estate planning goes beyond wills to include trusts, powers of attorney and letters of instructions. Talk to your advisor about what you need, and be sure to look out for these common mistakes.

1. **A will-based estate plan or no estate plan**
   Without the benefit of a clear estate plan or will, family members can be drawn into complicated legal proceedings that are both logistically and emotionally draining.

2. **An unfunded revocable living trust**
   Some assets will require more legal footwork to handle properly during the estate planning process, such as real estate, intellectual property, and certain types of stock, business partnerships and promissory notes. Using a funded revocable living trust allows you to make changes to the document, and the wealth you've accumulated can continue to grow.

3. **Vulnerable assets**
   Assets held as joint property can pose problems if a surviving spouse has a lot of debt. Should the unexpected happen, you can protect your loved ones by ensuring assets are titled correctly and insured properly. Otherwise, your estate could be held up in court as debtors seek payment via those assets.

4. **Too much or not enough life insurance**
   It is common for older investors to be over-insured, and policies with high cash values can be tapped to provide cash flow or terminated in favor of other investments. Younger investors tend to be under-insured, which can leave loved ones vulnerable to lost wages and unmanageable debt.

5. **Assets left outright to beneficiaries**
   Likewise, an estate plan that provides for outright distributions to your beneficiaries leaves that inheritance unprotected from creditors and lawsuits.

6. **Family members as successor trustees**
   If there are two or more co-trustees who don't get along, they could end up fighting in court. You can avoid this by naming an objective party as the primary trustee and family members as co-trustees.

7. **Outdated beneficiary designations**
   When updating your estate plan, be sure to make any necessary revisions to beneficiary designations.

8. **Lack of long-term care planning**
   A surprising number of people fail to plan for extended illness or deteriorating mental capacity. Consider some form of long-term care and how such a plan will be funded.

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There is much comfort in taking preemptive measures to ensure your affairs are in order. Your team of financial and legal professionals can address any concerns you might have and help to institute a plan you're comfortable with. ■

NEXT STEPS

- Consider the future closely, including where you plan to live and what kind of care you may need.
- Take inventory of your assets and property, and to whom you'd like to leave them.
- Seek professional guidance as you make these important decisions.

OVER **40%** OF COUPLES DON'T KNOW HOW MUCH THEIR PARTNER EARNS.

Yours, mine and ours

10 things you and your spouse should know about your finances

It seems inconceivable, but the Couples Retirement Survey by Fidelity Investments recently revealed that over 40% of couples don't know how much their partner earns. Yet having a solid understanding of your financial status as a couple is crucial to planning, budgeting and saving toward your goals. To get in sync, make sure you have the answers to these questions.

1. **Do we have any financial secrets?** Talk about your debt, obligations, past mistakes (e.g., credit cards, student loans, alimony, liens or foreclosures) and what you learned from them. Get familiar with your credit scores and histories.

2. **How do you view money?** Talk about your values (e.g., whether you're a spender or a saver), how you use debt and the role money has played in your life.

3. **How much do we earn?** Include bonuses in your tally and consider your future career goals and earning potential as well.

4. **What's our budget?** Do you know your cost of living? Is it below your means? Can you save for future goals? Create and maintain a budget together.

5. **What do we own and owe?** Take inventory of your collective assets and liabilities: property, insurance policies, bank, retirement and brokerage accounts – anything that involves money.

6. **Where's our emergency fund?** How much is in it? Is it titled in both our names so we'll have ready access should the unexpected happen?

7. **How realistic are our goals?** What trade-offs are you willing to make to achieve what you want as individuals, a couple and a family?

8. **How much are we willing to lose?** Has your risk tolerance changed? Once you've completed your budget, you'll both be better aware of what you have in investable assets and how flexible you can be with potential loss.

9. **How much are we saving for retirement and where are the accounts?** Keep track of your 401(k)s, including ones from previous jobs; IRAs; CDs that are dedicated to retirement; how much you're contributing; and whose name is on each.

10. **What will happen when one of us passes away?** Estate planning, including writing a comprehensive will, sets up contingencies to help ensure your family is taken care of after the loss of one or both of you. ■

NEXT STEPS

- Set a date to talk money, including these questions as a starting point.
- Compile all of your account numbers and passwords in a secure place for easy reference.
- Once you've talked through your goals and commitments, schedule time with your professional advisors to ensure your financial plan aligns with your needs.