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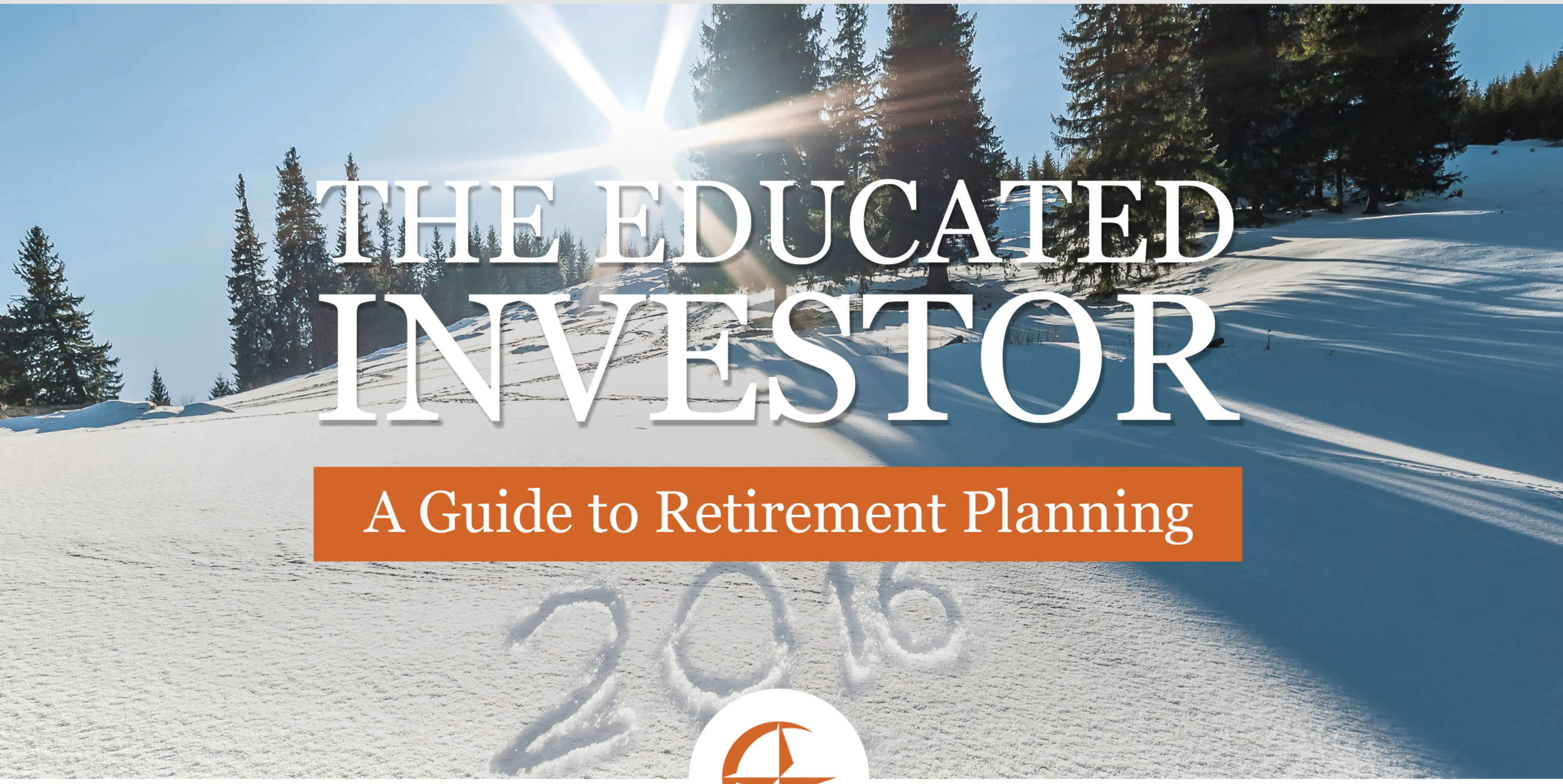

THE EDUCATED INVESTOR

A Guide to Retirement Planning

FEATURED ARTICLE

The 10 Cornerstone Principles of Asset Allocation

There are 10 principles for establishing and maintaining an optimal asset allocation. With them, you can build an appropriate portfolio for your situation.

Principles can be described as the beginning, the foundation, the source, or the essence upon which things build and expand. They are important in investing because they bring structure to your financial plan. There are 10 cornerstone principles of asset allocation and each one plays a vital role in establishing and maintaining a truly optimal asset allocation. By practicing these principles, you can build an appropriate portfolio for your situation. Keep in mind that asset allocation does not ensure a profit or protect against a loss.

Cornerstone Principle 1: Market Efficiency

Market efficiency is the golden principle of all asset allocation cornerstone principles. Without some degree of market efficiency, we would not employ asset allocation and would probably focus instead on security selection. Fortunately, our financial markets are highly efficient and are becoming even more so as information technology gets better with time.

Underlying asset allocation are two highly influential and well-known investment concepts: modern portfolio theory and the efficient market hypothesis.

Modern portfolio theory says that neither investors nor portfolio managers should evaluate each investment on a stand-alone basis. They should instead evaluate each investment based on its true ability to enhance the overall risk-and-return trade-off profile of a portfolio. Moreover, modern portfolio theory states that when an investor is faced with two investments with identical expected returns, but different levels of risk, that investor would be wise to select the investment that has the lower risk.

The efficient market hypothesis, in a related way, says that security prices are fair and reasonable because they fully reflect all available public and nonpublic information that might affect them. As a result, it is the amount of risk that investors are willing to accept that explains their real investment performance over time.

Cornerstone Principle 2: Investor Risk Profile

Your optimal portfolio is designed based principally on your willingness, ability, and need to tolerate risk. Consequently, once your risk tolerance is determined, your optimal asset mix can then be established in order to maximize your portfolio's return potential. This concept is expressed as the risk-and-return trade-off profile. Personal preferences toward risk assumption play a vital role in determining your willingness to tolerate risk. For example, two different investors with the same level of wealth and the same specific goals and needs would each have a different preference for assuming risk.

Your ability to tolerate risk is highly contingent on your investment time horizon and level of wealth. Generally, the longer your investment time horizon and the greater your level of wealth, the more risk you are able to tolerate because people with longer time horizons and people with greater levels of wealth have more room for error in achieving their specific goals and needs.

Cornerstone Principle 3: Identifiable Financial Goals

Asset allocation is the strategy of dividing the assets within a portfolio among the different asset classes, seeking to achieve the highest expected total rate of return for the level of risk you are willing and able to accept. As a result, knowing why you are investing and what you are attempting to accomplish is the vital first step. You cannot hit a target you are not aiming for.

When identifying your specific goals and needs, focus on quantifying and prioritizing them. Simply saying you need enough money to fund a college education or support yourself in retirement is much too ambiguous and not especially intelligent. Identifying that you need $25,000 per year for four years in tomorrow's dollars or $75,000 per year in retirement expressed in today's dollars is more appropriate. Lastly, when identifying your specific goals and needs, ensure that they are realistic, achievable, and measurable.

Cornerstone Principle 4: Time Horizon

Time horizon plays a significant role in estimating asset class returns, risk levels, and price correlations. Accurate forecasts are essential to building an optimal portfolio. The primary use of time horizon is to help determine the portfolio balance between equity assets and fixed-income assets and cash and equivalents. All else being equal, the longer your investment time horizon, the more equity investments and less current income-producing investments you may consider holding. Conversely, the shorter your investment time horizon, the more current income-producing investments and less equity investments you may consider.

One common risk that needs to be addressed over the long term is purchasing power risk, or the loss of an asset's real value due to inflation. Equity investments may provide the best hedge against this risk. As a result, the longer your investment time horizon, the more you may consider allocating to equity assets. In the short term, volatility is often a concern. Fixed-income investments may provide the best hedge against this type of risk and may be considered in your portfolio as well.

Cornerstone Principle 5: Expected Total Return

Expected total return is simply your forecast of total return for each asset class and asset subclass during the future holding period. While past performance does not guarantee future results, using historical rates of return in lieu of estimating expected rates is not only quick and easy but also a prudent approach used by many financial professionals.

Once your risk tolerance has been identified, you then design your portfolio to maximize your expected total rate of return for the given level of risk you are willing, able, and need to assume. This task cannot be accomplished without an estimate of future returns. This is the essence of the risk-and-return trade-off profile. Without a clear understanding of expected total rates of return for each asset class, there is little hope of maximizing a portfolio's potential performance and building your optimal portfolio.

Cornerstone Principle 6: Risk-and-Return Trade-off Profile

The trade-off between investment-specific risk and return is central to the application of asset allocation theory to an investment portfolio. Risk and return are unequivocally linked, and one simply cannot earn an excessive return while assuming a corresponding low risk. In basic asset allocation theory, the higher your risk tolerance, the higher your potential returns. You should not assume higher risk for the same potential return that a less risky asset may offer. The message here is that you need to build a portfolio with the maximum expected potential total rate of return given the level of risk you are willing, able, and need to assume.

Cornerstone Principle 7: Correlation

The term correlation refers to how closely the market prices of two investments, or, in the case of asset allocation, the prices of two asset classes move in relation to each other. Although not always the case, most securities within an asset class or asset subclass tend to move together over time. Of course, there are always exceptions.

Your aim is to allocate investments to asset classes and asset subclasses that do not move in perfect lockstep with each other. The greater the difference or the lower the correlation that two asset classes move together, the more attractive they are for investment purposes. Since some asset classes experience strength at one time whereas others experience strength at other times, it may be appropriate, depending on your tolerance for risk, to allocate among multiple asset classes at all times. Investing in multiple asset classes may allow you to avoid serious market and portfolio weakness. Lastly, by investing in multiple asset classes with low correlations, you enhance the risk-and-return trade-off profile for your portfolio.

Cornerstone Principle 8: Diversification

It is important to apply the principle of diversification in order to minimize risk in a portfolio. The task of diversifying a portfolio should be addressed after completing the process of allocating among asset classes and asset subclasses. Diversification is the process of investing in a significant number of not-too-similar investments within each asset class in an effort to reduce the risk associated with each individual investment. By holding a significant number of not-too-similar investments, the impact resulting from a negative investment-specific event may be minimized. It is important to understand that the process of diversification entails investing in a significant number of not-too-similar investments with similar risk-and-return trade-off profiles. In doing so, your risk-and-return tradeoff profile will remain constant. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

Cornerstone Principle 9: Optimal Asset Mix

Asset mix refers to both the asset classes and asset subclasses that a portfolio is allocated to and their respective weightings within that portfolio. It is essential to allocate a portfolio's assets in a deliberate and calculated way in order to develop the desired risk-and-return trade-off profile. Thus, allocating assets to those asset classes and asset subclasses to develop the desired risk-and-return trade-off profile defines the optimal asset mix.

Incorrectly allocating assets will create a situation where the portfolio either assumes more risk than appropriate or does not assume enough risk, thereby depriving you of better return potential. As you know, your work does not stop once your portfolio is designed and built. Constant monitoring and rebalancing will need to take place.

Cornerstone Principle 10: Re-optimization

Over time, a portfolio's asset mix, including the resulting risk-and-return trade-off profile, will change due to price fluctuations, with some fluctuations being quite large. To address this issue, re-optimization may be appropriate and needed. Re-optimization is comprised of four different, but somewhat similar, tasks. Think of these tasks as the Four Rs of Re-optimization: reevaluating, rebalancing, relocating, and reallocating.

- Reevaluating is the task of examining recent changes in your life and evaluating them within the context of your portfolio.
- Rebalancing is the task of selling and buying investments in order to return a portfolio's current asset class mix to the previously established optimal asset mix. Tax implications should be considered when implementing a rebalancing strategy.
- Relocating is the task of exchanging certain assets for other assets without changing the overall asset mix or risk-and-return trade-off profile.
- Reallocating is the task of adjusting to which investments your contributions go and in what amount. In this context, reallocating does not change the mix of your assets, only how contributions will be made in the future.

Bequest or Beneficiary: In Estate Planning, the Difference Is Crucial

The scenario plays out over and over again in attorneys' offices: A family brings a parent's will to be probated. The will is complete, well-thought-out, and takes into consideration current tax law. But under closer examination, the attorney discovers that the deceased's estate plan doesn't work. Why? Because a substantial portion of the parent's assets pass by beneficiary designation and are not controlled by a will.

Increasingly, investors have the opportunity to name beneficiaries directly on a wide range of financial accounts, including employer-sponsored retirement savings plans, IRAs, brokerage and bank accounts, insurance policies, U.S. savings bonds, mutual funds, and individual stocks and bonds.

The upside of these arrangements is that when the account holder dies, the monies go directly to the beneficiary named on the account, bypassing the sometimes lengthy and costly probate process. The "fatal flaw" of beneficiary-designated assets is that because they are not considered probate assets, they pass "under the radar screen" and trump the directions spelled out in a will. This all too often leads to unintended consequences -- individuals who you no longer wish to inherit property do, some individuals receive more than you intended, some receive less, and ultimately, there may not be enough money available to fund the bequests you laid out in your will.

Unnamed or Lapsed Beneficiaries

Not naming beneficiaries or failing to update forms if a beneficiary dies can have its own unintended repercussions, which can be particularly damaging in the case of retirement accounts. For instance, if the beneficiary of an IRA is a spouse and he or she predeceases the account holder and no contingent (second in line) beneficiary(ies) are named, when the account holder dies, the IRA typically would pass to the estate instead of the children directly as the account holder likely would have preferred. This not only would generate a tax bill for the children, it would also prevent them from stretching IRA distributions out over their lifetime.

Planning Priorities

Given these very real consequences, it is important to work with an estate planning professional to ensure coordination between your beneficiary-designated assets and the disposition of property as it is spelled out in your will.

You should also review your beneficiary designations on a regular basis -- at least every few years -- and/or when certain life events occur, such as the birth of a child, the death of a loved one, a divorce or a marriage, and update them, as necessary, in accordance with your wishes.

This information is not intended to be a substitute for specific individualized tax or legal advice. We suggest that you discuss your specific situation with a qualified tax or legal advisor.

BACK TO A ROUTINE: 2016 ECONOMIC OUTLOOK

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10 Tricks to Help You Actually Keep Your New Year's Resolutions

Many of us spend January 1 making resolutions and the other 364 days trying to stay resolved to keeping them. In fact, only 8% of people successfully achieve their resolutions, according to research from the University of Scranton. So, here are the top 10 tips for making resolutions and more importantly, keeping them!

1. Set short-term goals for long-term results.
People who break their resolutions into small, manageable chunks typically have more success. Say your goal is to save money. Rather than making a resolution to save $5,000 this year, try to save $100 a week. It's almost the same amount of money (a little more actually), yet the goal is easier to keep. You're able to measure your progress along the way and all you have to think about is that $100 each week, not that insurmountable $5,000.

2. Make your resolution about the journey, not the outcome.
There's a better guarantee of success if you stick to resolutions that you actually have control over. Want to lose 15 pounds? Well, sticking to a healthy diet and exercise routine is more important than the number on the scale. And you can't force those pounds off. So, stick to a resolution like 'I will go to the gym five days a week and I

will fill half my plate with fruits and vegetables at every meal.' These are things you have control over and they will help you reach your ultimate goal of weight loss.

3. Schedule time for your resolution.
We are all so busy, it's hard to find time to do the things we want to do, let alone the resolutions that challenge us. So, schedule gym sessions into your calendar just like you would a meeting or a dance recital. I've even set an alert on my phone that goes off 30 minutes before I'd like to go to the gym. When I feel like skipping my workout, sometimes that beep-beep gives me the extra kick out the door I needed.

4. Employ the buddy system.
Everything is better with a friend, including resolutions, and it can be more than just a walking buddy. Want to start saving money on groceries? Challenge a friend. Plan meals around the store ad, clip coupons and then compare receipts and see who saved the highest percentage.

5. State your goals.
Tell people about your resolutions. People who explicitly state their goals are more likely to keep them. It's social accountability. And with social networks at your fingertips, it's possible to tell a whole bunch of people. So send your goals out into the universe and you'll be more likely to keep them than if they were just a half-baked idea in your head.

6. Keep Records.
Tracking your progress is a good way to stay accountable and keep the resolution fresh in your mind. If your goal is to read more, Goodreads.com has a reading challenge. You set a goal for the number of books you want to read this year and it will track your stats towards that goal. You can also compare your progress to others who've taken the challenge.

7. Get an app.
There is an app that can help with every resolution. Noom not only tracks your diet, exercise and task completion, but coaches you through the process towards weight loss. Mint will help with your personal finances by tracking spending by category and keeping you on budget.

8. Celebrate little victories.
You deserve it! Just make sure the rewards you choose don't work against your goal (i.e. heading on a shopping spree because you managed to save $100 this month). Think of a way you can treat yourself like taking a long, relaxing bubble bath every week you reach your saving's goal. It's a positive reward that will actually help make a healthier, happier you.

9. Reassess your resolutions.
If something is not working, then it's OK to go back and modify your resolution. Resolutions are all about becoming a better version of yourself, not a perfect version of yourself. If you're not able to save $100 a week, oh well! Knock it down to $75 and keep trying. That's still $3,900 saved by the end of the year and that's something to be proud of.

10. Don't give up so easily.
Too often people throw in the towel on resolutions because of one slip up. So what, you had a moment of weakness and ate a box of donuts. It happens! If weight loss were that easy, it wouldn't be the number one resolution, year after year. Often, we use small slip-ups as an excuse to give up on big goals. Forgive yourself, move on and keep trying.

Chocolate Peanut Butter Rice Krispy Brownies

Ingredients

BROWNIE
* 1 & ¾ cup milk chocolate chips, divided
* ¾ cup butter {I used salted}
* ½ cup light brown sugar, packed
* 1 & ½ cups white sugar
* 1 & ½ tsp. vanilla extract
* 3 large eggs
* 1 cup all-purpose flour
* 8 regular-sized Reese's peanut butter cups, chopped {Or 1 cup mini Reese's peanut butter cups}

KRISPY TOPPING

* 1 & ½ cups smooth peanut butter
* 1 & ½ cups milk chocolate chips
* 1 Tbsp. butter {I used salted}
* 1 & ½ cups rice krispies cereal

Directions

1 Preheat oven to 350ºF.

2 Line a 9x13 inch baking pan with aluminum foil and spray lightly with cooking spray. {Trust me - You want to do this step. It makes clean up so much better.}

3 Combine ¾ cup chocolate chips and butter in a large bowl.

4 Microwave on high heat for 45 seconds. Stir and then microwave in 15 second increments and stir again until mixture is smooth.

5 Stir in sugars until well combined.

6 Add the vanilla extract and stir until smooth.

7 Whisk in eggs.

8 Fold in the flour until just combined.

9 Stir in ½ cup chocolate chips and then pour batter into pan.

10 Bake for 25 minutes or until center is set.

11 Remove from oven and sprinkle chopped peanut butter cups and remaining ½ cup chocolate chips over the brownies and continue baking for 3-4 more minutes.

12 Remove brownies and let cool.

13 Prepare topping by combining peanut butter, chocolate chips and butter in a medium bowl.

14 Microwave on high heat for 1 minute. Stir and then microwave in 15 second increments and stir until mixture is smooth.

15 Add rice cereal and mix until fully coated.

16 Spread cereal mixture in a smooth layer on top of brownies and then cover and refrigerate for at least 90 minutes. {Or overnight.}

SOURCE: http://www.highheelsandgrills.com