What Is Asset Allocation Strategy?

Worksheet

Asset allocation is distributing investments across stocks, bonds, cash, and other assets in proportions that match your risk tolerance and goals.

Questions

1. The most important factor in investment success is…

A) Picking individual stocks
B) Asset allocation
C) Daily monitoring
D) Timing the market

2. A 25-year-old should have…

A) 100% bonds for safety
B) 80%+ stocks for growth potential
C) 50% of each
D) Only cash

3. What is rebalancing?

A) Changing entire portfolio strategy
B) Buying more of winning positions
C) Restoring portfolio to target allocation
D) Selling all stocks

4. A 55-year-old should increase _______ allocation before retirement.

A) stocks
B) bonds
C) real estate
D) commodities

5. A 35-year-old with 30 years to retirement and medium risk tolerance. Suggest an asset allocation.

6. A 65-year-old retiree needs income and capital preservation. Recommended allocation?

7. An investor has equal allocation (50/50 stocks/bonds). After a bull market, stocks are 65%, bonds 35%. How to rebalance?

8. Define: What is asset allocation?

9. Define: Why is asset allocation important?

10. Define: What factors determine asset allocation?

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Answer Key

1. B) Asset allocation — Asset allocation explains ~90% of portfolio return variation — far more than stock picking.

2. B) 80%+ stocks for growth potential — Young investors can tolerate volatility; stocks have higher long-term growth.

3. C) Restoring portfolio to target allocation — Rebalancing maintains your desired risk level by adjusting weights back to target.

4. B) bonds — As retirement approaches, bonds provide stability and income.

5. Time horizon: 30 years (long) → can handle volatility Risk tolerance: Medium → balanced approach Suggested: 70% stocks, 25% bonds, 5% cash Rationale: Stocks for growth, bonds for stability, cash for emergencies.

6. Time horizon: Short (20+ years) → less volatility needed Goal: Income + safety Suggested: 40% stocks, 50% bonds, 10% cash Rationale: Bonds provide steady income; stocks provide some growth.

7. Current: 65% stocks, 35% bonds (drift from 50/50 target) Sell stocks to reduce from 65% → 50% Buy bonds to increase from 35% → 50% This 'buy low, sell high' locks in gains and reduces risk.

8. Dividing investments among stocks, bonds, cash, and other assets based on goals and risk tolerance.

9. It's the primary driver of portfolio returns and risk — more important than picking individual stocks.

10. Age, time horizon, risk tolerance, financial goals, and income needs.

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