

## **The Importance of Asset Allocation**

Any investor who seeks to increase his returns, protect his investment from specific risks, and maximize his wealth, must exercise prudent asset allocation strategies.

But before we begin, one might ask: *what exactly is asset allocation?*

As the name suggests, asset allocation refers to the process of dividing one's investments across various asset classes (eg. cash, bonds, property, shares). Depending on factors such as age and level of risk tolerance, different people may have different asset allocation strategies.

As an example: a person closer to retirement age would usually dedicate less of his capital to high-risk assets. A young, budding entrepreneur, on the other hand, could be the exact opposite.

Because different classes of assets react differently to changing market conditions, proper asset allocation allows you to manage the ups and downs of the financial market over the long run. In fact, research has shown that good asset allocation is the key to the long term success of any investment portfolio.

## **How to Determine the Right Asset Allocation for You**

Since asset allocation is greatly affected by personal preferences as well as the experience, goals, and amount of money a person has, it is important to realize that there is no "perfect" asset allocation strategy that fits everyone. Generally, your asset allocation strategy would be determined by:

- Your attitude towards risk – how much short-term losses can you handle?
- Your investment time horizon – how long can you put your money away for?
- Your individual circumstances – how much future financial commitments do you have?

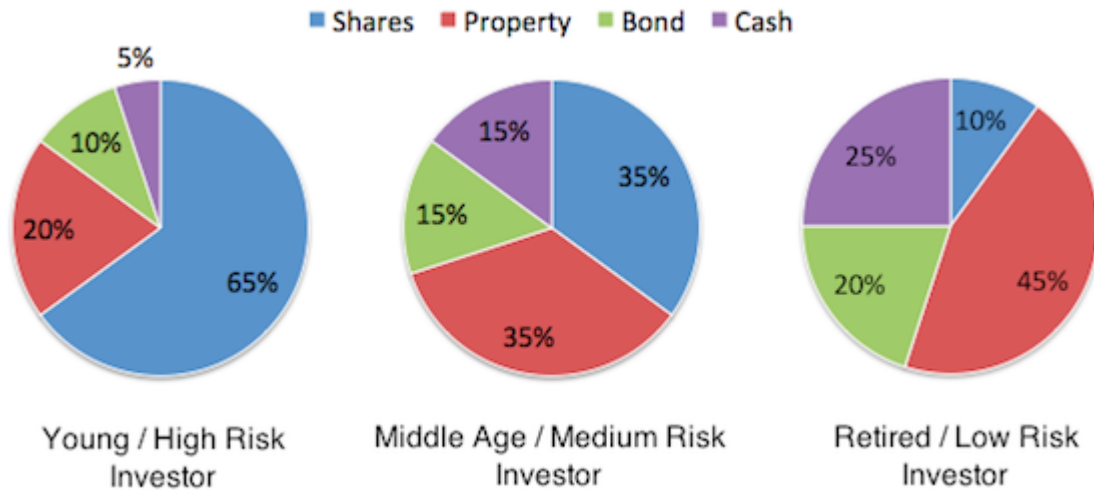
As a general rule: the lower your tolerance towards risks and the shorter your investment time horizon, the less your allocation should be on higher-risk assets such as property and shares.

## **The Issue of Age**

As previously mentioned, age is a key factor when it comes to deciding on one's asset allocation strategy. As you grow older, it is important that you alter your asset allocation to reflect the change in circumstances. If you continue to invest like how you were 10 or 15 years earlier, you may be undertaking undue amount of risk.

Generally, your asset allocation should gradually evolve towards a more conservative model as you age, with more allocation in safer assets (like bonds and [property](#)), and less in risky assets (like [shares](#)). Ultimately, the ideal scenario is to have enough income generating assets in your portfolio to replace the loss of wages when you retire.

### Examples of Asset Allocation Strategies



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