

Red and Blue Investment Portfolios

Some investment time spans leave investors with black and blue investment portfolios causing them to see red. Statements showing a drop in portfolio value weakens the resolve of many investors. Usually, this takes place during uncertainty about sudden or expected long-term economic changes. A Presidential elections arouse uncertainty on Wall Street, and all investors read the results.

Rambling editorials opined about American votes for the incumbent on Op-Ed pages with wambling- antidotes after the U.S. Presidential election. Characteristic rhetoric flourished as electors fulfilled their collegiate task. On November 3rd, the opposition seceded the race to the incumbent. Although both parties seem inured to the exit opinions/polls, the electorate is not. Finally, nearly two years of battling leaves one political party with a depleted treasury and an uncertain platform while the other presumes a mandate.

Does any of this matter to the securities markets? On the short-term, it did as observed by Bloomberg's Dune Lawrence, "U.S. stocks benefited from the "election cycle" last week, when the Standard & Poor's 500 Index climbed to its highest level since March 2002. If history is any guide, the rally may not last for long," for example, the bond market does not like the deficit outlook.

However, market reaction to current events seems relevant only for the moment. Historical market trend studies suggest the limits current events impose on market conditions. Reactions do not make trends; long-term investors prefer the classic over the vogue, long-term over short-term. A conclusion printed by Brinson, Singer, Beebouwer in the Financial Analysis Journal (May/June 1991) affirms this observation:

92% of portfolio performance may be attributed to Asset Allocation

6% to stock selection

2% to market timing (reacting to current events)

If asset allocation matters most, how do we identify asset classes? Basically, asset classes may be separated by two major distinctions:

Stocks/Equity

Bonds/Debt

Stocks in the U.S. may be further distinguished by:

Large Cap Value

Large Cap Growth

Small Cap Value

Small Cap Growth

These divisions do not meet the full array of asset classes for well-diversified investors. A broadly-diversified investor may augment market exposure, while enhancing risk control, by adding a range of asset classes such as:

Fixed Income/Bonds

International Equity

Emerging Markets Debt

Emerging Markets Equity

High Yield Bonds

Money Market

All investors face the primary challenge: "How will I be compensated for the risk I am taking?" Asset allocation acknowledges investor risk. Wise investors take every step necessary to assure compensation for the levels of risk they take. National elections now become prattle as corporate earnings and interest rates re-take the Wall Street headlines.

*Wambling means "To move in a weaving, wobbling, or rolling manner; to turn or roll. Used of the stomach."

Source: <http://www.articlecircle.com>

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