



# Invest

## A Close Look at Asset Allocation

Dividing the investments in a portfolio among different asset types is the strategy known as *asset allocation*. This is an important strategy because the amount invested in each asset class will affect long-term performance.

### Three Major Asset Classes

The three major asset classes are stocks, bonds, and cash equivalent investments. In the past, stocks have provided the highest long-term returns. But stocks also have the highest risk of short-term losses.

Bonds tend to have lower long-term returns than stocks, but they usually are less risky. Cash equivalent investments are the least risky asset class. But they also have the least chance of earning returns that are greater than the inflation rate.

“There is no ‘one-size-fits-all’ allocation.”

### Performance Differences

In addition to having different risk and return characteristics, the various asset classes often react differently to various market conditions. For example, when the stock market declines, bond prices often rise — and vice versa. So spreading out the investments in a portfolio among the different asset classes also spreads out investment risk.

As the chart illustrates, there is a noticeable difference in the historical long-term returns of the different asset classes. When

a portfolio is diversified, stocks can provide growth potential and the less volatile investments (bonds and cash equivalents) can provide stability and help reduce overall risk.

### Historical Returns of the Major Investment Types

Average annual total returns through 12/31/08

	15 Years	20 Years
Stocks*	6.46%	8.42%
Bonds**	6.18%	7.43%
Cash Equivalents***	3.78%	4.24%

\* Measured by the S&P 500 Index, an unmanaged index of the stocks of 500 major corporations. Stocks may offer opportunities for greater gains but may also involve greater risk to principal.

\*\* Measured by the Barclays Capital U.S. Aggregate Bond Index, an unmanaged index of U.S. government, corporate, and mortgage-backed securities.

\*\*\* Measured by three-month Treasury bills. Treasury bills are guaranteed by the U.S. government and, if held to maturity, offer both fixed principal value and fixed return.

Past performance does not guarantee future results.

Source: Russell Data Services



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### Coming Up with an Asset Allocation

There is no “one-size-fits-all” allocation. The appropriate percentages to allocate to the different asset classes will depend on the amount of risk a person is comfortable with and how long the money will be invested. Generally speaking, the longer

the investment time frame, the more risk a person can handle since there is more time for investments to bounce back from possible declines. Shorter time frames typically require more conservative asset allocations.

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