

What are the different types of Asset Classes?

Below is a quick – study chart to help you understand Asset Classes. Each one contributes differently to your portfolio. Each one has a different level of risk and return and will behave differently over time.

ASSET CLASS	EXAMPLE	RETURN	RISK LEVEL
Equities	Stocks	Adds Growth	Higher
Fixed Income	Bonds	Adds income and stability	Lower
Cash Equivalents or Cash	Cash Money Market	Current interest rate	No risk High credit quality

How asset classes are selected

There is no simple formula that can find the right asset allocation for every individual. However, the consensus among most financial professionals is that asset allocation is one of most important decisions that investors make. In other words, your selection of individual securities is secondary to the way you allocate your investment in stocks, bonds, and cash and equivalents, which will be the principal determinants of your investment results.

THE YOUNGER YOU ARE

Rule of thumb: ‘The more time you have until retirement, the more risk you can tolerate.’

Tolerating risk means being able to invest comfortably in aggressive investments—those that tend to rise and fall dramatically in value but that have the greatest potential for gains over the long term.

Aggressive Asset Classes:

- *Small-cap stocks
- International stocks in emerging markets



* The term ‘cap’ refers to the size or market capitalization of the company. Smaller companies have smaller market values.

THE OLDER YOU ARE...

Rule of thumb: ‘The closer you are to retirement, the less risk you can tolerate.’

This type of investor should favor more moderate or conservative asset classes. Older participants should favor more moderate or conservative investments, such as bonds, CDs, and money market funds.

Conservative Asset Classes:

- Bonds
- Certificates of Deposit (CD)
- Money Market funds

