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ASSET ALLOCATION STILL MAKES SENSE, SAY PLANNERS

It's enough to make a financial planner cry. Trying to convince clients of the value of asset allocation amid today's hot tech market is tougher than the job of the proverbial refrigerator salesman among the Eskimos.

You remember asset allocation and diversification, don't you? Instead of letting everything ride on a few stocks or a single type of stock, you spread your investment portfolio among a variety of investments: some here in large company stocks, some there among bonds, some overseas, some in small company stocks, some in real estate. Exactly how much you put into each asset class depends on your investment goals, your tolerance for risk, how much money you have to invest, and so on.

Forget that, say many clients and investors today. Even if their diversified portfolios are returning a healthy 20 percent or more—probably at least double what they originally projected their portfolios would return on average each year—they're unhappy. Why didn't their portfolio return 40 percent or even 130 percent like some technology-oriented mutual funds returned in 1999. They're mad they've missed out on the high tech rally. The Nasdaq, home to most of the small and large computer and Internet stocks, returned a whopping 86 percent in 1999.

Jump on the bandwagon, investors.

The problem is, argue many financial planners, when most investors start abandoning asset allocation in order to jump on a particular bandwagon, the wagon often is either nearing the end of its trip or is being passed by another bandwagon.

Investors don't have to go back far to see this effect. From 1995 to 1998, the place to be was the large company stocks of the S&P 500. Of course, it took investors a couple of years to realize that, since the S&P had scratched out only a

measly 1.33 percent in 1994, and many experts didn't predict great returns in 1995 (when it shot up 37.51 percent).

By 1998 and especially 1999, the S&P 500 was all the rage, especially S&P index funds. But by then, the Nasdaq was starting to take off. Following a 22 percent return in 1997, it jumped to 40 percent in 1998, followed by the 86 percent in 1999-four times the S&P's still healthy 20 percent return.

The whimsical nature of the markets is evident in the returns published by Sigma Investment Management Company in Portland, Oregon. Sigma compares returns for four asset classes-large U.S. stocks represented by the S&P 500, small U.S. stocks, international stocks and intermediate government bonds-from 1966 through 1999.

Did you know that small U.S. stocks returned nearly 84 percent in 1967, and over 50 percent back-to-back in 1975 and 1976-when there weren't hot Internet stocks around? They also edged out the S&P 500 in 1999. Remember when international stocks returned 57 percent in 1985 and 70 percent in 1986? They also beat the S&P 500 last year. Did you realize that from 1966 through 1999, the S&P 500 was the best performing among the four asset classes only five times, four of those in the last five years?

Jumping on the bandwagon would be fine if you knew with reasonable certainty which bandwagon to get on. Take small-company stocks in 1983, when they outperformed the other asset classes with a 29 percent return. The next year, that bandwagon lost over 7 percent, while intermediate government bonds proved to be the winning bandwagon, up 14 percent.

The same challenge comes when picking individual stocks. How many investors forecasted at the start of 1999 that Puma Technology, a software company, would return 3,770 percent for the year? Or that Qualcomm, a wireless stock, would shoot up 2,397 percent in 1999 to \$200 a share, only to fall to around \$115 a share by February of this year? Or among all the computer manufacturers in 1990 that Dell Computer would return 90,772 percent for the decade, while some of its competitors would go out of business? How many investors realize that half of the stocks on the Nasdaq lost money in 1999?

The purpose of asset allocation is to reduce risk and help investors achieve their long-term financial goals, not gamble on who will be this year's winner. The results usually won't be as spectacular, but the ride in the long run is a lot smoother and often more profitable.



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