INTEGRIS
WEALTH MANAGEMENT

<u>FOCUS ON ASSET CLASS</u>

Personal Investing Series

Article 8

When I started this Personal Investing Series of articles, I mentioned how confusing it is to invest because you are inundated with so much information. If you could only reduce that information overload to a manageable level! We have made some very good progress in that direction already by recognizing that the future is unpredictable, and as a consequence, all information involving a prediction is of dubious value and can be ignored. In this article I hope to narrow that focus even further. The focus is this - when you first think about your investments, <u>think asset class</u>, not individual securities or funds.

What is an "asset class"? Asset classes are merely investments of a similar type. Investments of a similar type tend to behave in a similar fashion because their prices are sensitive to the same economic factors, and this is useful to investors as I will soon explain. The broad asset classes are stocks, bonds, and cash. These can be broken down further into domestic and international stocks and bonds. Stocks can also be broken down into large, medium, and small capitalization. Bonds are typically broken down between long, intermediate, and short term.

The asset class distinctions that I find the most useful are these:

large US stocks	emerging market stocks
small US stocks	real estate stocks
European stocks	high yield bonds
Asian stocks	intermediate term US and international bonds

Why are asset classes a good way to think about your investments? The reason is this. Research shows that 90% of your investment return is a function of the asset class decision, not the specific investment within that asset class. This makes sense. Individual high yield bond portfolios will differ from each other, but their returns will all be related to what happens in the high yield bond markets. If that market is up, it will be very hard for an individual portfolio, assuming it is reasonably diversified, to be down. If it is down, it is probably because it really isn't a high yield bond portfolio after all. The same is true for all asset classes. Large US stock portfolios will perform along the lines of the large US stock market, Asian stock portfolios like the Asian stock market, etc.

So why is this focus on asset classes so important? It is important because it further simplifies our investing. If the first, and most important investment decision is what combination of asset classes to invest in, then you can eliminate some potentially overwhelming decisions. Namely, which of thousands of mutual funds or individual securities do you invest in. You can focus on which combination of 10 or so asset classes are appropriate for your situation. And only after that decision is made do you worry about what specific investments can best be used to implement your asset class decision.

In the next article we will talk about how you decide which asset classes are appropriate for your situation.

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