Choosing the Right Asset Allocation:
The Secret Is in the Mix

Cake. Concrete. Lemonade. What could they possibly have to do with investing? Well, it's simple. Just as too much or too little of a single ingredient in the mix can mean a flat dessert, a crumbling sidewalk, or a sour drink, the wrong proportion of stocks, bonds, and cash in your portfolio can leave you short of your financial goals.

Asset allocation — the amount of money you invest in different asset types — often has the greatest impact on your success in reaching your goals. So, be sure to choose a mix that fits your goals, time frame, and risk tolerance.

Basic Ingredients. If you have many years to invest, you may want to put a large percentage of funds in stock investments. Stocks typically have the potential for earning returns that outpace inflation. While past performance is no guarantee, historically, stocks have generally outperformed other investments over the long term.[1]

Make sure you choose a variety of stock types, such as large-, mid-, and small-cap stocks, from several different sectors of the economy.

Variety Adds Spice. No one investment class is going to perform well all the time, so putting your money in more than one asset class makes sense. Fixed-income investments,[2] such as bonds, may help cushion your portfolio if stock values drop. Consider a mix of short-, medium-, and long-term bonds.

Top It Off. It's a good idea to add cash investments, such as Treasury bills and certificates of deposit, to your portfolio. If you're faced with an unexpected expense, these short-term investments can easily be converted into cash. But, unless you need to conserve your assets for a short-term goal, you probably don't want to hold too much of your portfolio in cash investments, since their rates of return are typically low and may not keep up with inflation.

[1] Stock investing involves a high degree of risk. Stock prices fluctuate, and investors may lose money.

[2] Prices of fixed-income securities may fluctuate due to interest rate changes. Investors may lose money if bonds are sold before maturity.

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