
THE *INVESCO* Alternative

Dedicated to helping you ...

... Achieve Financial Independence

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Registered Investment Advisors - Certified Public Accountants - Real Estate Brokers
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Time To Take on MORE Risk?

The first step in professional portfolio management is to determine the proper amount of risk any particular client should have in his portfolio. Factors affecting this decision include the clients' ages, expected retirement dates, sources of income other than the portfolio (social security, pensions, annuities, etc.), and personal risk tolerances. Once we've agreed on risk, we build a portfolio with that degree of risk. What happens if the market goes UP 20%? The stocks or bonds with the highest risk in a portfolio go up more than those with lower risk, thus increasing the average risk of the portfolio. Therefore, we need to trade some of the riskier investments for those with less risk to get the portfolio risk back to what was agreed. This practice is rather counterintuitive - most investors feel more comfortable with risk as the market rises.

But what if the market FALLS 20%? Again, the riskier investments fall more, lowering portfolio risk. Then we need to trade less risky stocks or bonds for stocks with higher risk to maintain the formerly agreed-on portfolio risk. Near market peaks we are automatically lowering risk; at market bottoms we are increasing risk. Thus, our managed portfolios fall less in a down market and rise faster in an upswing.

This is one of the reasons our average client managed portfolio has outperformed the S&P 500 by more than 83% since June 30, 2000. Please don't try to lower risk in a down market or raise it in an upswing - you'll just lower your long-run portfolio performance.

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