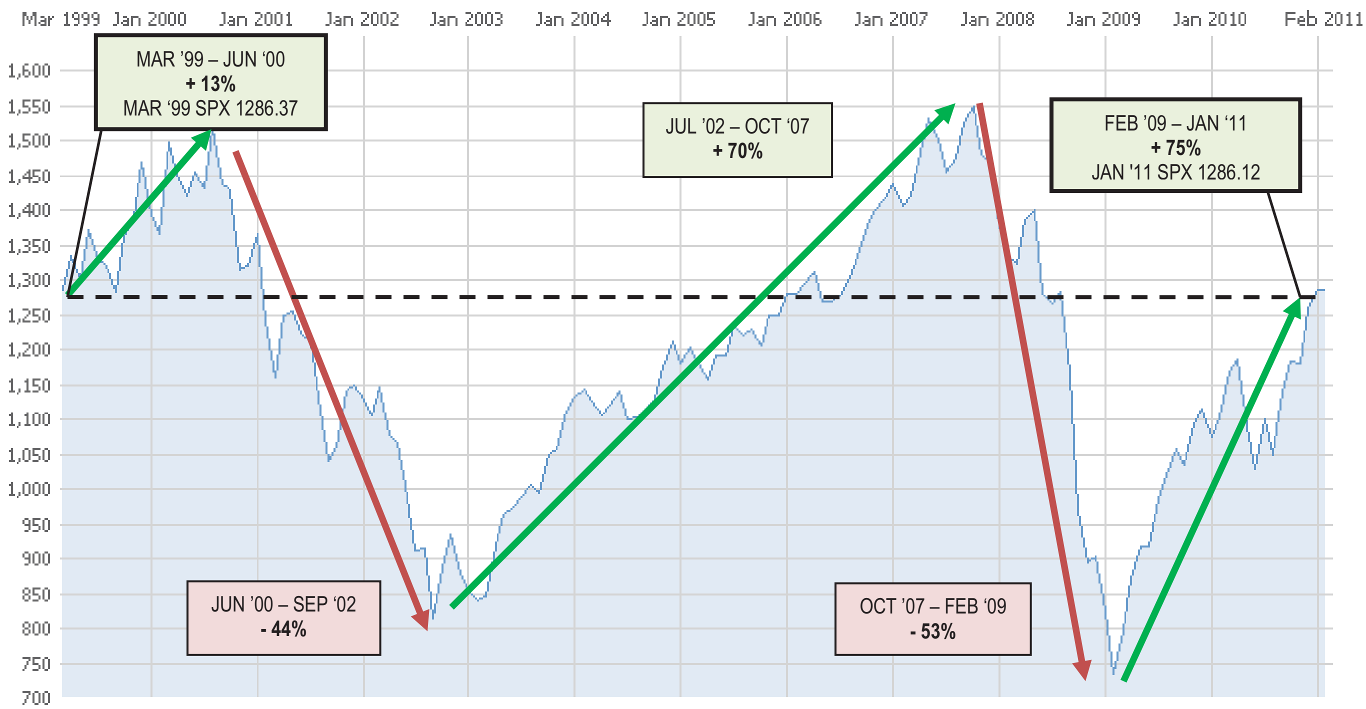
Carter Wealth Management

Risk Allocated Portfolio

In just four months, from October 2007 to February 2009, the broad market declined almost 53%. Have you considered what return it takes to recover after a downturn – especially one so severe? From a 50% loss, the math to get back to even requires a 100% return. The time it takes to get back to even can take several years – perhaps a decade or more. The opportunity cost can also be tremendous as the time value of money has been lost. In addition, you may also have to take on more risk than you are comfortable with in your attempt to make up your losses. The chart below shows that, despite two major runs upward, market volatility completely erased all gains during the 11-plus year period from March 1999 to January 2011.

S & P 500 Index (SPX) – Performance March 31, 1999 to January 31, 2011



Source: moneycentral.com

Traditional asset allocation models devote a set portion of a portfolio to various asset classes — a conservative portfolio might devote 60% to stocks and 40% to bonds — based on their expected returns. The idea is to offset the risk of stocks with safer bonds and other asset classes. In periods of market volatility, however, asset classes can decline precipitously, and often in unison. In contrast, risk-based portfolios focus on volatility, not expected returns. Such portfolios change their holdings based on each asset class's volatility at any given time. If done properly, risk allocation produces a portfolio that is both safer and closer to investors' true risk tolerance; helping them sleep at night—and allowing them to stay fully invested even in market storms.

- Diversified across five non-correlated asset classes
- Liquid for opportunities and life events
- Structured for tactical allocation
- Potential for more consistent returns and decreased volatility