WORTH MAGAZINE
ESTABLISHED 1992

MAKE
The Lebron James money machine; top emerging retail markets; 10 rules of successful entrepreneurship.

GROW
What women want in a financial advisor; how Wall Street reform passed; history's biggest IPOs.

LIVE
10 unique ways to travel; the best summer camps; protecting your family from electronic spies.

Worth®

THE EVOLUTION OF FINANCIAL INTELLIGENCE

WORTH.COM
08
VOLUME 19 | EDITION 05

"Asset allocation failed in 2008, and all assets increased in 2009. Does asset allocation still make sense?"

By Timothy E. Flatley

A sound investment strategy requires allocating your money to a variety of asset classes. The year 2008 was unusual because almost all asset classes fell sharply, leaving little safe haven. However, 2009 reinforced the value of maintaining long-term discipline, as many of these asset classes rebounded strongly.

Does asset allocation still work? Our answer is yes, but the strategy must evolve based upon the current economic climate. Traditionally, asset allocation involved investing into a combination of U.S. stocks, bonds and cash.

When asked how he became the greatest hockey player, Wayne Gretzky responded, "I skate to where the puck is going to be, not where it has been." To determine where the puck—future investment opportunities—will be, let us examine the ramifications of our current economic policies. We have huge deficits, we will need to borrow massive amounts of money, and there is a strong probability of increased regulation and taxes.

Considering these facts, one needs to add more shots on goal. The first shot is a significant increase in foreign stock and bond exposure. Other economies in the world are growing faster than the United States' economy. When you add a weakening dollar to the equation, holding assets in foreign countries and foreign currencies becomes more important. This would include stocks and bonds from both developed and emerging foreign economies.

The second is an allocation to precious metals. Owning precious metals has become much easier through the use of exchange traded funds. One can purchase the metal itself or the companies that mine the metal. Precious metals are a hedge against currency devaluation and inflation.

The third is a careful allocation to U.S. bonds, including municipal and corporate bonds. One must keep an eye open for potential increases in interest rates. Floating rate bonds, whose interest rates adjust with the interest rate environment, are worth a look.

Fourth is creating consistent income from high-quality dividend stocks. These stocks have lagged the recent market move as money chased the high-tech companies.

In summary, asset allocation still works, but the group of assets invested in should be adjusted to reflect current trends. The mix of assets should be evaluated periodically and funds shifted from overvalued to undervalued positions.

DETERMINE GLOBAL ASSET ALLOCATION ACROSS ACCOUNTS

Most successful people have accumulated a variety of accounts over the course of a lifetime. They have retirement accounts, brokerage accounts with multiple firms, government bonds, stock options, trusts and accounts with firms such as Fidelity and Vanguard. In addition there may be business interests in public and private companies and in real estate.

The past 24 months have shown us that it is important to carefully monitor your investments. For example, if one had a large concentration in financial service companies, the portfolio would have taken a huge hit in 2008. We believe that it is vital to have a consolidated view of your entire portfolio.

The answer is to use a data aggregation system. These systems import data from every account that you own into a centralized website on a daily basis. Investments can be categorized into asset classes and sectors, providing an immediate analysis of your portfolio.

The Delaware Valley region is defined as the following counties: Pennsylvania—Berks, Bucks, Chester, Delaware, Montgomery, Philadelphia; Delaware—New Castle; Maryland—Cecil; and New Jersey—Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Mercer, Ocean, Salem.

Timothy E. Flatley, ChFC®
President

Sterling Investment Advisors Ltd.
1055 Westlakes Drive
Suite 150
Berwyn, PA 19312
Tel: 610.560.0400

Email: flatleyt@sterling-advisors.com
www.sterling-advisors.com

REPRINTED FROM
Worth®
THE EVOLUTION OF FINANCIAL INTELLIGENCE