

# How Does Exchange Determine Asset Allocation?

By: Exchange Capital Management

November 7, 2022



All strategies we incorporate into your account are wholly dependent on your unique circumstances and financial plan. This is especially true when determining asset allocation, which is when we divide your assets between stocks, bonds, and other investments. Before finalizing asset allocation, we will assess four major components in your financial plan: goals, investment timeline, risk tolerance, and cash flow.

## What Are Your Goals?

We build a financial plan based on what goals you'd like to achieve. By understanding these goals, we can assess which division of asset classes works best for your portfolio. Not all clients have the same goals. You might want to save as much as possible, buy another property, retire early, donate to charity, etc.

By understanding your goals, we can assess which asset class mix can fulfill your needs. Whether that be more conservative bonds, riskier stocks, or other investments.

## What Is Your Investment Timeline?

Understanding your investment horizon helps us pick investments that align with your timeline. For example, stocks should be long-term investments since a longer investment horizon gives them time to stabilize and provide higher returns. Conversely, bonds are less risky and might be better for short-term investors.

## What Is Your Risk Tolerance?

Investment timeline and risk tolerance usually go hand in hand. This is because the length of time to invest and how much risk the investor can objectively take on are usually aligned. Longer time horizons can withstand riskier assets and vice versa.

Risk tolerance shouldn't always be seen through an objective lens. The investor's personal risk tolerance needs to be accounted for. Those who are susceptible to emotional bias within their portfolio should have a healthy mix of conservative and risky investments. This may help them stick to their financial plan and portfolio to reach their goals.

## **What Is Your Cash-flow?**

Lastly, cash flow helps us understand what is realistic for your plan and asset allocation. Those who are retired can benefit from conservative assets as it helps them maintain the wealth they have generated throughout the years. Additionally, it provides investors with stable income when they aren't working anymore. Those actively making money have more leeway to take on riskier asset classes, as they aren't dependent on portfolio withdrawals.

## **Exchange's Perspective**

These questions help us divide your assets in a way that benefits you. Once we understand these four components, we will show you projections of a few different asset allocations. From there, we can work together and decide which asset class mix is the best for you.

## **The Bottom Line**

While there are many aspects to consider when determining asset allocation, these four components provide a holistic view of what assets should be in your portfolio. Consider scheduling a discovery meeting to learn why we believe financial planning is imperative when determining your asset class mix.