

Asset Allocation – Why is it so important?

Sigma's "*Thoughtful Investing*" philosophy was articulated in the June 2011 Sigma Summaries authored by our Chief Investment Officer, Denise Farkas. Denise discussed the process our investment committee uses to determine which investments make it into our model portfolios. One of the six fundamental tenets she discussed was the individual client asset allocation parameters. This month, we thought it might be helpful to devote some additional attention to expand on what asset allocation means and why it is important to our clients.

Asset allocation is a strategy we use to balance risk and reward by using different asset classes in an investment portfolio. The percentage in each asset class is dependent on a client's goals, risk tolerance, and time horizon. The typical asset classes include equities (stocks), fixed income (bonds), and cash. Other asset classes often include real estate, commodities, and alternative investments. The proper mix of different asset classes in a portfolio can help minimize risk while maximizing returns.

Sigma utilizes a number of different planning tools to assist the portfolio managers in assigning the appropriate asset allocation guidelines. One example is the financial planning software we use to help project a portfolio's abilities to meet a client's goals. This software allows us to run different financial scenarios using various asset allocations and then determine from the output which is the most appropriate for the client.

The asset allocation guidelines are detailed in the investment policy statement which is drafted by the portfolio manager in agreement with the client. The policy statement details the client's financial background, investment strategy and discusses items such as time horizon, risk tolerance, return requirement, income and liquidity needs. All of these items are used in determining the appropriate asset allocation. A risk-taking client in their thirties saving for retirement should have a different asset allocation than a risk-averse client in their seventies who depends on their portfolio for income.

summaries

Sigma's clients' asset allocations consist of a target allocation for equities (stocks), fixed income (bonds), and cash or cash equivalents. Each asset class has its own target with a minimum and maximum range around the target. For example a client may have a 70% target equity allocation, with a 75% maximum allocation and a 65% minimum allocation. In this case the portfolio is initially rebalanced to the 70% target. With a 70% equity allocation, a \$1,000,000 portfolio would have \$700,000 invested in equities. The value of the equity investments will grow or decline with the market movements. If the equity value declines to 65% of the portfolio, our systems are designed to suggest to the portfolio manager to buy or add to some stocks. If the equity value appreciates to 75% of the portfolio, our systems would suggest we sell or trim some stocks. The portfolio manager then reviews the portfolio and considers possible transactions to ensure the portfolio remains consistent with the client's goals and objectives.

The discipline of using an asset allocation target helps remove some of the emotion from the investing process. This discipline signals us to buy when investments have declined and might be a good value. On the upside, it signals us to sell when investments have appreciated and might be overvalued. Our policy is to revisit asset allocation

guidelines for each client regularly, make sure they are appropriate and reflect any changes in client goals and objectives. Any changes in the investment policy statement are updated as needed and at least once a year.

Marisa A. Lenhard, CFA, CFP®

As a reminder, 2013 is Sigma's 40th Anniversary year. In honor of this, each month our employees are sharing personal "Sigma Stories" with you. We hope you enjoy!

Part-time to Long-term

When I first walked into Sigma's office in Grosse Pointe, I was impressed with the friendliness and generosity that was extended to me. I was interviewing for a part time position to cover for two maternity leaves. Having been a stay at home mom for eight years I was very nervous, but it did not take long before I realized what a great environment of camaraderie and teamwork I had stepped into. Everyone was willing to pitch in to get the job done.

It has been almost 17 years since that day and I have watched the transition from using a Dictaphone with piles of paper to a streamlined near paperless operation with a tremendous increase in computer

processes and workflow. We used to have at least five file cabinets filled with paper and now we have none!

It has been a pleasure getting to know our clients over the years. I especially enjoy sharing our family stories whether it be about our aging parents, our children or new grandchildren. If there is anything I have learned at Sigma, it is “stay in it for the long term” and that is what I plan to do!

Barb Morasso

Only Three Days

My niece Marisa Lenhard came over for dinner one night and asked if I would come answer the phones at Sigma. She had been working there a few years. The SEC was coming in for an audit and they needed someone to help for about three days. My youngest daughter just started high school and I had plenty of free time, so I agreed to do it.

My very first day, I hung up on one of Sigma’s biggest clients. When he called back I apologized profusely and explained I was new and just getting used to the phone system. Fortunately he laughed and said it was not the first time someone hung up on him! When I got home that day I was exhausted and said to myself “only two more days!”

The auditors finished and left. I was asked to stay on to help a few more weeks. Pretty soon I was balancing statements, opening accounts, handling client requests and learning how to place trades.

Those few weeks turned into months and then years. It has been thirteen years now! I still go home exhausted but I love every minute of it. I have met some wonderful people and have some wonderful friends because of Sigma. The first three days seemed long but the thirteen years have flown by!

Patty Freund

local independent personal accessible
interactive creative local independent personal
knowledgeable thoughtful ethical experienced

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Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives

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