Tips for Building a Successful Long-Term Portfolio

A portfolio that can stand the test of time is one that uses both passive and active investment strategies.

To better understand this, let's first take a look at passive investing. This type of investing is when an investor buys and holds a security for an extended period of time. Overall, the goal for passive investors is to achieve long-term capital appreciation, while minimizing expenses. Transaction costs are kept to a minimum because when positions are bought and held, trading is kept to a minimum. Generally, this type of investing is not concerned with short-term price fluctuations and does not try to turn a quick profit; its main focus is to let the invested assets' value compound and grow over a long time period.

A key component of passive investing is strategic asset allocation. Here, investors strategically allocate cash to equities, fixed income, and money market instruments. The best way to look at this is by an investor's time horizon to retirement. If an investor is young and has many working years left, they are able to take on more risk and accept some price fluctuation in the value of their holdings. Therefore, such an investor should consider allocating a higher portion of their portfolio to equities. Alternatively, for those who are close to retirement (or who are more conservative) and would like to preserve the capital in their portfolio, a higher allocation to fixed income securities should be considered.

Changing over to active investing, investors who adhere to this strategy tend to be more hands-on and concerned with short-term price fluctuations. Under this strategy, investors are looking for mispriced securities, with the goal of buying low, selling high, and timing their transactions appropriately. Aside from seeking security-level inefficiencies within the marketplace, active investors seek to tactically allocate among sectors with their portfolios that they perceive to be over or under valued.

Stepping back, it's obvious that each strategy has its strengths and weaknesses. However, we believe a positive, long-term strategy combines certain positive attributes of each approach.

First, it is dangerous to speculate and put your money into something that is solely based on price. This is why it is imperative to consistently evaluate your investments to be sure they are positioning your portfolio for long-term success.

Second, choosing an asset allocation is a major decision that is perhaps the most important investment decision you can make. The proper allocation between stocks, bonds, cash and alternative investments is something that only you can decide because it is ultimately a decision about how much risk you are comfortable within your portfolio. Similarly, tactical sector weightings can take advantage of industries that are likely to perform well

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or avoid others that could have headwinds within a particular portion of an economic cycle.

Ultimately, whatever path you choose for your portfolio, it is essential to critically evaluate both your individual investments and your long-term asset allocation. Avoiding either could prove costly to your portfolio. If you need help choosing the best path to help you achieve your goals, speak with your financial professional for more information.

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