

All About Asset Allocation.

An asset is something valuable. Asset allocation means finding ways to make money work harder. Show kids that even though asset allocation sounds complicated, it's really pretty simple. Think about your financial goals, how long it will take to reach them, and select where you should put them, like in stocks, bonds or a savings account.

Stocks

Shares of a company that is sold to the public. Companies sell stocks to raise money to finance business operations. Stock prices can change daily. As an investment, stocks have produced the highest long-term returns over the past several decades. They also have had the biggest swings in performance and are subject to much greater short-term risk of losing money.

If you have a goal that is a long way off, you may want to have most of your money invested in stocks.

Bonds

An asset issued by the federal government, state governments, or corporations. When you buy bonds, you are lending money to the organization. Bonds generally pay interest (usually more than a savings account) every six months. Unlike a savings account at a bank or credit union, many bonds are subject to risk, which means you could lose some or all of the money you invested.

As your goal gets closer, you may want to hold less in stocks and more in bonds.

Short-term investments

A vehicle, such as a savings account, that's meant to hold the value of your money over a shorter period of time.

For short-term goals, you may want to have most of your money in short-term

investments that are less likely than stocks and bonds to lose their value in a short amount of time.

Keep going, you're doing great!

Next Skill