MONEY CONFIDENT Kids®

Presented by T. Rowe Price®

Asset Allocation

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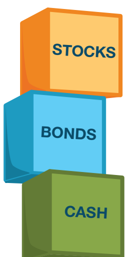
Taking a Sensible Risk

Hi, folks! It's Nikki. It's been two years since I finished graduate school, received a promotion at work, and bought my house! It's within my budget, near my family, and perfect for one person! Five or 10 years down the road, I'll want my own family *and* a bigger house, so I'll have to plan for even more expenses! Especially when my longer-term goals are to start my own software company and fund a scholarship at my college!



At lunch yesterday, my company gave a talk on "Personal Financial Planning and **Asset Allocation**." They mentioned that there are three basic building blocks to develop an asset allocation strategy: cash, **bonds**, and **stocks**. Each investment type has a risk (the danger of losing money) but also a reward (the chance to make money).

BUILDING BLOCKS FOR ASSET ALLOCATION

CASH

Cash is money kept in savings, checking, or other accounts at a financial institution like a bank. These accounts have a low reward because they pay little or no interest, but they are also low risk because bank accounts are insured by the federal government.

BONDS

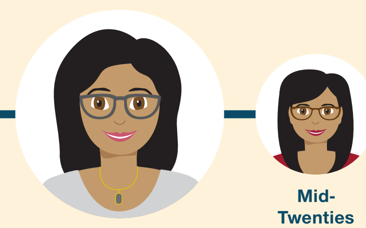
Bonds are like a loan to a company and the company promises to pay the loan back plus interest. Because interest rates on bonds are higher than rates given by cash accounts, the reward is higher. But there is also a risk of losing money if the company goes out of business.

STOCKS

Stocks give you part ownership of a company. The value of your share in the company can go up or down depending on changes in the **stock market**. Over time, stocks have given the highest financial rewards, but there is the risk of losing some or all of your investment if the company does poorly or goes out of business or if the stock market declines.

LESSON 1

Asset Allocation is how your money is divided among stocks, bonds, and cash according to your financial time horizon and is key to achieving long-term goals.



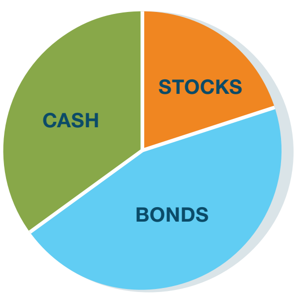
Mid-Twenties

Early Twenties

Good thing I was having dinner with Mom and Dad and learned even more about investing! Mom said that smart **asset allocation**—or having the right combination of cash, bonds, and stocks—is one key to successful investing. Her investment account has grown nicely over the years because her asset allocation strategy was to invest more in stocks. But, she said, strategies can shift depending on your **time horizon**. Since she's approaching retirement, she'll need to rebalance her investments for less risk by increasing bonds and reducing stocks. I was confused about why she'd change her strategy if she was making money. She explained that *the closer you get to needing your money, the more you should reduce the risk of losing it*. Great advice!

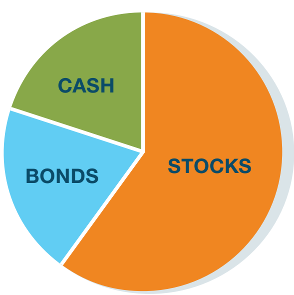
ASSET ALLOCATION MIX

SHORT-TERM TIME HORIZON



A financial goal with a short-term time horizon means that you'll need your money soon. Reduce risk by limiting the amount you have in stocks and investing more in cash and bond options, which are less risky.

LONG-TERM TIME HORIZON



A financial goal with a long-term time horizon means that you won't need your money right away and can accept more risk by investing more in stocks (stocks have the potential to earn more money, but they can also lose more money too).

Mom said that an easy way to get started investing is to use **mutual funds**. Mutual funds are a collection of different stocks, bonds, and other investments. Since the mix of investments in mutual funds comes in different shapes and sizes, it meets the needs of different investment strategies. Some mutual funds have only bonds, some have only stocks, and some have a mix! I can't wait to get started!

WHAT'S THE
Big Idea?

Having an Asset Allocation strategy based on your time horizon helps you save for long-term financial goals by using three major building blocks: Cash, Bonds, and Stocks.