MONEY CONFIDENT Kids
Presented by T. Rowe Price

Asset Allocation

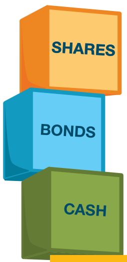
4

LESSON 1

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

Taking a Sensible Risk

Hi guys, it's Nikki! It's been two years since I finished university, received a promotion at work and bought my first home! 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 university!



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 **shares**. 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

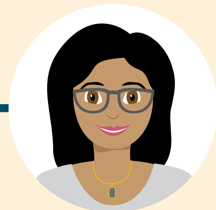
Cash is money kept in savings, transaction or other accounts at a financial institution like a bank or credit union. These accounts have a low reward since they pay little or no interest, but they are also low risk because bank accounts are guaranteed (up to certain limits) by the federal government.

BONDS

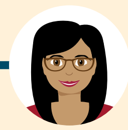
Bonds are like a loan to a company that promises to pay back the loan plus interest. Because interest rates on bonds are higher than rates given by cash accounts, the potential reward is higher. But there is also a risk of losing money if the company goes out of business or fails to make payments on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

SHARES

Shares 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 **share market**. Over time, shares 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 share market declines.



Early Twenties

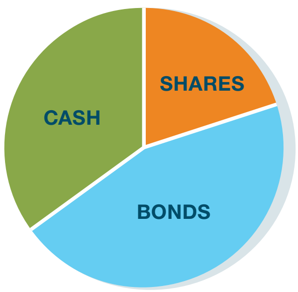


Mid-Twenties

It's a good thing I was having dinner with Mum and Dad and could learn even more about investing! Mum said that smart **asset allocation**—or having the right combination of cash, bonds and shares—is key to successful investing. Her investment account has grown nicely over the years because her asset allocation strategy was to invest more in shares. But, she said, strategies can shift depending on your time horizon. Since she's approaching retirement, she'll probably want to rebalance her investments for less risk by increasing bonds and reducing shares. 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!

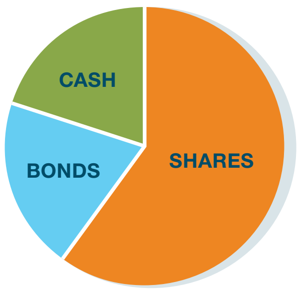
ASSET ALLOCATION MIX

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 shares 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 shares (shares have the potential to earn more money, but they can also lose more money too).

Mum said an easy way to start investing is to use managed funds. **Managed funds** are a collection of a number of different shares, bonds and other investments. Since the mix of investments in managed funds comes in different shapes and sizes, they meet the needs of different investment strategies. Some managed funds have only bonds, some only shares 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 shares.