

Investment Insight

March 2020

“The main thing is to keep the main thing the main thing.”

Stephen Covey

Asset Allocation is the Big Kahuna

A great deal of time, effort, energy (and money) go into the analysis and picking of stocks. Wall Street firms hire technology analysts, healthcare analysts, retail analysts, etc., to research specific industries and companies. All of this hiring and spending builds up a faith in the importance of research and stock-picking prowess.

But this specific-company research keeps our focus too close to the minutiae and can cause investors to miss the bigger picture. It focuses on the bottom, where vision is obscured, and it's hard to tell where things are going.

Have you ever noticed that when stocks go up, they tend to *all* go up? And when stocks go down, they tend to *all* go down? Sure, some move at a greater rate in one direction or the other. But, by and large, they tend to move in lock-step.

Look back to January of 2000 when the market was close to its peak before falling by half over the next couple of years. If you're an investor trying to figure out where to put money in January of 2000, the important question wasn't which stocks should you own, but should you own any US stocks at all? And that question applies to every other asset class. Should you own any bonds or any international stocks, or any real estate or anything else?

Asset allocation is *how* we diversify – how much of each investment type we put in a portfolio. Research has shown time and again that how you are diversified – your asset allocation – is the most important part of the investment process. Research says that asset allocation accounts for most of the variation in portfolio returns.

A top-down approach to investing first asks and answers the question, “Should I own this asset class at all?” because asset allocation really is the big kahuna. And that is why we use a vigorous investment process to get your asset allocation right.

We want you to know we're doing everything we can to help you reach your objectives.

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Reference SII Compliance Log #