CJ Investment Mini-Lessons

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Mini-Lesson: Investment Choices or Why One Asset Allocation Won't Work

Here is an excellent excerpt from a 2/27/02 internet writing by Richard Russell (courtesy of my local library):

"You only have two problems with bonds. The first is that your bond will not appreciate in price in a booming economy. Bonds cannot raise their interest payments or coupons, those rates are guaranteed, but fixed. (Note – he's talking about "riskless" bonds, like Treasuries)

"The second potential problem is that if you hold your bond until it matures in ten years, inflation may have eaten into the dollar's purchasing power. In other words, unless you buy TIPS your bond will not be able to adjust for inflation. You put say ten thousand dollars into ten bonds today and in ten years when those bonds mature your original ten thousand dollars buys six thousand dollars worth of goods.

"*Everything in life is a trade-off*. (My Italics) Bonds vs. stocks is a trade-off. Stocks vs. cash is a trade-off. Bonds vs. cash or T-bills is a trade-off. *Investing is a matter of choices, picking the best trade-off available*. (My Italics)

"*What makes investing difficult is change. Times change, investments change, what looks great today may be a dog tomorrow*. (My Italics) A few years ago Cisco was touted as the royal road to investment riches. Today, those who bought Cisco jus a few years ago are wondering whether they'll ever get their money back."

Obviously, Russell is banging the same drum I was when I wrote the "Effective Asset Allocation is Fluid" article I sent you a few months back. But, his points are so well put, I thought I'd share them with you again. ***Investing is not a static discipline when done correctly.*** You can make an asset allocation and stay with it through good times and bad, *hoping* that you end up ahead "in the long run," or you can assess changing markets and reallocate to profit from them and minimize risk. I obviously believe in the latter, difficult though it is to execute.

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