Helping You Reach Your Goals

INSIGHT

©iStockphoto.com/Clerkenwell_Images

Rather than making emotional decisions with every market shift, craft a diversified portfolio based on individual goals and opt for strategic adjustments as neccessary

Asset Allocation: A Foundation of Prudent Investing

Asset allocation and diversification are often considered to be the foundation of prudent investing. Yet when dramatic market fluctuations occur, it's easy to make impulsive changes that don't align with long-term goals.

"Bull and bear markets can be emotional roller coasters," says Rob Haworth, Senior Investment Strategist for U.S. Bank Asset Management Group. "But your long-term plan is there for a purpose, and it is our job to help our clients stay the course." However, it is important to consider adapting your asset allocation to market shifts. Work with a Financial Advisor from U.S. Bancorp Investments, Inc., to make strategic decisions that may help you meet your goals while maintaining an acceptable level of risk. Consider these five items we believe are necessary for effective asset allocation. It is important to remember though that asset allocation and diversification do not ensure a profit or protect against a loss.

Set Strategic Goals

The first step in planning your asset allocation and diversification is defining your long-term financial goals—saving a specific amount by a certain age or creating an income stream that will last 20 years, for example—then creating an investment strategy to help work toward those goals. "You need to have a goal so you can evaluate whether your portfolio is working for you," says Clay Webb, Head of Asset Allocation for U.S. Bank Asset Management Group.

Setting goals can potentially help you avoid impulsive decisions in reaction to a volatile market. "Without a clear goal, it's easy to get frustrated by how assets are allocated during a bad year," Webb says. "If the market is excessively strong or weak, investors often want to push back on their plan. But it's important to remember what you are trying to accomplish in the long term."

From there, your Financial Advisor can help you identify an appropriate balance of assets for your investment objectives and work with you to determine your acceptable level of risk. For example, someone with $1 million to invest over 20 years may be willing to withstand more volatility than someone with the same amount but who needs it to generate an annual income, Webb says.

Assets chosen should be diversified and uncorrelated—and therefore less likely to rise and fall in sync. This may mean introducing new asset classes or selecting investments across an array of markets and industries. Keep in mind that new asset classes or investments come with their own risk factors.

A properly diversified portfolio can help reduce overall market risk. Gains in one investment class may help offset losses in another."

continued on page 2

Five asset allocation considerations:

- Set strategic goals
- Consider international stocks
- Make tactical moves
- Perform periodic reviews
- Stay the course with a trusted advisor

See important disclosures on page 4

Asset Allocation: A Foundation of Prudent Investing

continued from cover

> "If the market is excessively strong or weak, investors often want to push back on their plan. But it's important to remember what you are trying to accomplish in the long term."
>
> —*Clay Webb, Head of Asset Allocation for U.S. Bank Asset Management Group*

Consider International Stocks

One strategy to help achieve portfolio diversification is through international stocks from both emerging and developed nations. "International stocks can provide different characteristics and different volatility in terms of currency and economic conditions," Haworth says.

Yet many investors today shy away from international stocks, particularly those from the European Union because of the current volatile economic conditions there. While that's an understandable concern, it's not justification to ignore the entire international market as an asset class. International market fluctuations historically have had a low correlation to the U.S. market and may add balance in terms of currency value, Haworth says. Plus, international investments offer a range of options that spans the risk scale. They do come with their own risks, though, such as foreign taxation, currency risks, risks associated with possible differences in financial standards and other risks associated with future political and economic developments. Investing in emerging markets involves greater risks than investing in more developed countries. Also, concentration of investments in a single region may result in greater volatility.

Make Tactical Moves

Once your diversified portfolio is in place, you can work with your advisor to make adjustments within your specified guidelines in response to market fluctuations.

If, for instance, the market becomes excessively volatile or interest rates rise, you may opt for changes within the bandwidth of the predefined ratio of asset classes to potentially maximize wealth or minimize risk. Or, to potentially minimize the impact of investment taxes, you may increase tax-exempt investments and decrease other income-producing investments.

"Such tactical moves may enhance the after-tax portfolio value, and you could possibly add an additional amount of return per year simply by rebalancing," Haworth says.

U.S. Bancorp Investments Financial Advisors can track these near-term market fluctuations and work with you to thoughtfully reposition your portfolio in response.

©iStockphoto.com/Yuri_Arcurs

"It helps to have someone by your side who can calmly put things in perspective and make sure you stay the course," Webb says. "Even experienced investors can let their emotions get in the way of prudent investment decisions when they manage their own money."

Perform Periodic Reviews

Along with tactical adjustments, investors should review their strategic portfolio goals with their Financial Advisor once or twice a year to help determine if they are in line with their target objectives, and if those objectives have changed. "If your goal was to double your money in 10 years, and you accomplished that goal in five, you may want to re-evaluate how to position your portfolio for the remaining years," Webb says.

Conversely, if you are nearing retirement and your portfolio isn't worth what you had hoped, you may consider adjusting your risk tolerance.

"You always need to look at your investment through the lens of your objectives," he says.

During these cyclical reviews, Webb suggests conducting a cash flow analysis to see if the portfolio is on pace, as well as a Monte Carlo simulation to assess the potential likelihood that the portfolio may achieve its ultimate target goal. A Monte Carlo simulation can project potential cash flows, net worth and net heirs values multiple times, each under a different set of conditions, to yield a range of possible outcomes. The results produce the probability of achieving different outcomes. If the Monte Carlo analysis points to a less than 80 percent likelihood of success, you may want to adjust your goals or risk tolerance, he says.

Stay the Course with a Trusted Advisor

As you look at the current volatile marketplace and think about your long-term financial ambitions, remember that investing is not about choosing the top-performing asset class. "It's about how you combine asset classes to create predictable value over time," Haworth says.

A knowledgeable advisor can help you make portfolio-balancing decisions and stay focused on the end goal to avoid impulsive choices that may expose you to unnecessary risk. Your U.S. Bancorp Investments, Inc. Financial Advisor, U.S. Bank Portfolio Manager, or U.S. Bank Relationship Manager can assist you in determining the appropriate choices necessary to help you to potentially achieve your goals.

See important disclosures on page 4

Planning for Life's Curveballs

Some life-changing events are unavoidable, but you can take steps to help prepare for unforeseen circumstances that come your way.

It's been said the only two certainties in life are death and taxes. The third certainty is that life will always present us with curveballs—unexpected events that may surprise us.

Although the timing of these events may surprise us, we can take simple steps to help prepare for them. Learning how to change a tire, for example, can help you when you're stuck on the side of the road with a flat one.

Similarly, it's important to prepare for life-changing events, such as health issues and divorce, that can affect your financial stability. As stewards of their family's wealth, affluent individuals should work with their tax and legal advisors to prepare for challenges that may come down the pike, says Sally Mullen, Chief Fiduciary Officer for U.S. Bank Wealth Management.

"A reason that it's important to plan for life's curveballs now is that there are estate planning opportunities that may help ensure that you'll have financial stability regardless of what happens, and help you ensure that you'll be able to pass money down to your heirs and charities of your choice," Mullen says.

U.S. Bank and U.S. Bancorp Investments, Inc., an affiliate of U.S. Bank, cannot and do not provide tax and legal advice, but here are some tips that you may want to discuss with your advisors to help manage your wealth amid some of life's most common curveballs.

Disability

To help protect yourself against income loss during a potential debilitating injury or illness, you may want to consider disability insurance. Should you have a policy, its important to understand how the coverage works in the event you need to exercise benefits. Given each person's unique situation, you should consult with an insurance professional who can help you better understand the benefits of your coverage.

A disability insurance policy may replace up to 60 percent of your annual income if you become disabled, says Carol Goetsch, Senior Group Product Manager for U.S. Bancorp Investments, Inc.

Keep in mind that once you qualify as disabled under the terms of your policy, there's usually a waiting period before you can begin receiving benefits. "Disability insurance policies usually have elimination periods. This is the period of time in which you must continue to be disabled prior to the policy paying benefits," Goetsch says. "Once you have met this elimination period, you can normally begin to receive benefits under the terms of the policy."

To help weather the elimination period, maintaining an emergency fund in a liquid account may make sense. Since elimination periods can last up to six months, it's generally a good idea to keep funds set aside that will cover the period of time during the elimination period.

An emergency fund may also help protect your investments from what Goetsch calls "portfolio turmoil"—the result of liquidating assets unexpectedly in a market that might not be conducive to liquidation. For example, an individual might borrow against a retirement plan or cash out investments. "Because you're liquidating when you still want to accumulate, it may impede your ability to enjoy your retirement down the road," she says.

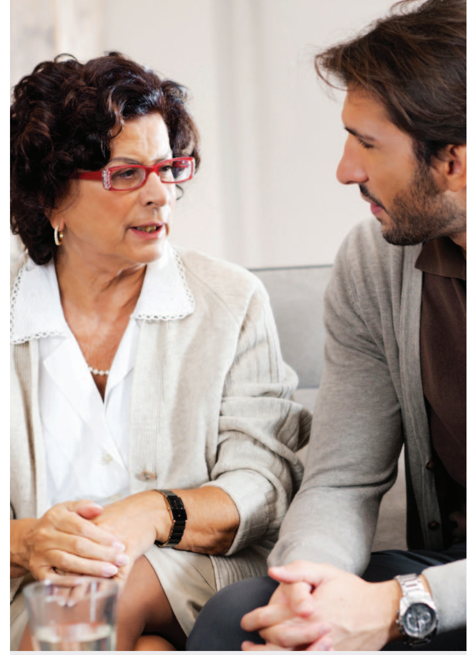
Divorce

While divorce isn't necessarily a curveball that can be anticipated, there are some simple steps you can take that may protect you if you realize your joint venture might dissolve, Goetsch says.

Update the key documents and policies that the dissolution of your marriage will affect, such as life insurance policies and retirement accounts. One of the most important—and easiest—things you can do is review and potentially change the beneficiary of

continued on page 4

See important disclosures on page 4



©iStockphoto.com/skynesher

Three Things You Can Do Today

When it comes to proactively planning for unexpected events, consider these three simple steps:

MAINTAIN AN EMERGENCY FUND
Consider keeping close to six months of monthly income in a liquid account for convenience. Given that each person's situation is unique, you should consult with a financial professional about your specific situation.

INTRODUCE YOUR SPOUSE TO YOUR ADVISORS
"One of the things we often run across, particularly for married couples, is one spouse tends to be the financial person and has the relationship with the advisor," says Sally Mullen, Chief Fiduciary Officer for U.S. Bank Wealth Management. "The other spouse might not have the time or interest to go to all the meetings but should be encouraged to meet the key advisors at some point and know how to contact them."

PICK A POWER OF ATTORNEY, AND LET THAT PERSON KNOW
"Have conversations with people that you've named," Mullen says. "If you've given somebody the power of attorney, and the first time he or she finds out is after you've had a stroke, that's not optimal."

INSIGHT is published by U.S. Bank and its affiliate U.S. Bancorp Investments, Inc. For more information, suggestions, and comments, please contact us at 800-236-7700. If you wish to receive future issues of *INSIGHT* electronically, please provide your email address to your U.S. Bancorp Investments, Inc. Financial Advisor or your U.S. Bank Relationship Manager.

Planning for Life's Curveballs

continued from page 3

any asset you have designated for an ex-spouse, assuming the divorce decree does not call for you to maintain it as is. It's a simple process of letting your financial professional know you'd like to update the beneficiary. Your financial professional can assist you in obtaining and filing the appropriate paperwork.

"Failure to change the beneficiary designation may result in the ex-spouse receiving the assets or proceeds at death, which may not be your intention," Goetsch says. "While there may be a resolution via the courts, it can take considerable time and expense."

Death

Thanks to estate taxes, death can potentially be one of the most expensive life event for affluent individuals.

Attempting to mitigate the expenses associated with death requires a strategy that matches your goals. "It's the basics of financial planning," Goetsch says. "What do you have? Who do you want it to go to? It's preparing for the unknown."

As you put together your strategy, start by considering two main buckets:

1. Your assets, including the money and estate you'll leave behind.
2. The key people who will make decisions on your behalf should you become incapacitated or die.

With proper planning, it may be possible to avoid unnecessary costs due to estate taxes, says John Kitzke, an attorney with Kitzke & Associates in Grafton, Wisconsin.

"You need a comprehensive game plan," Kitzke says. "Make sure you have a good transition plan in place: Review your investment program, make sure that your investments are tax-efficient and consistent with their long-term planning—and that they have the right mix of investment philosophies."

It's also essential to have a will and keep it up to date, says Mullen. (In addition, a living will can help determine the course of your medical care if you're incapacitated.)

Goetsch suggests identifying one or two key people to serve as health power of attorney and financial power of attorney, and to execute your wishes in your place. Your financial power of attorney should have a clear understanding of your finances and investment strategy.

Don't overlook the importance of having your team of advisors work together, specifically your accountant, lawyer and financial professional. "Consider integrating your estate plan with tax planning and your portfolio," Goetsch says.

A Changing Landscape

From a new marriage to an unexpected divorce, and from a sudden loss of income to a changing tax landscape, life's curveballs don't have to throw you off course.

"People have to make decisions today based upon what's in front of them, knowing that it can and most likely will change in the future," Goetsch says. "If plans are flexible enough, they should be able to accommodate those changes."

All of us serving you™

PCGNEWSLETTER USBI-LIT-30132