

# Investment Strategy Allocation Worksheet

Student Name:

Date:

## Introduction

This worksheet will help you create investment allocations for different time horizons and test them against various economic scenarios. You'll learn how different investment strategies perform under different conditions and how to align your strategies with your risk tolerance and financial goals.

## Part I: Your Risk Tolerance Profile

Based on your Risk Tolerance Assessment from Day 1:

|                           |  |
|---------------------------|--|
| My Risk Tolerance Profile |  |
| My Risk Tolerance Score   |  |

### Risk Profiles Reminder

- **Conservative (5-10 points):** Prefers stability and capital preservation with minimal fluctuations
- **Moderate (11-15 points):** Seeks balance between growth and stability, can tolerate some fluctuations
- **Aggressive (16-20 points):** Prioritizes maximum growth and can tolerate significant fluctuations

## Part II: Creating Investment Allocations for Different Time Horizons

For each time horizon below, create an investment allocation strategy that aligns with your goals and risk tolerance.

Short-Term Goal (1-3 years)

Example goals: Emergency fund, vacation, car purchase, education expenses

My specific short-term goal:

Target amount: \$

Timeframe:

Allocation Strategy

Cash & Equivalents:

70%

Bonds:

20%

Stocks:

10%

Specific Investment Types (check all that apply)

☐ High-yield savings accounts

☐ Government bonds

☐ Certificates of deposit (CDs)

☐ Corporate bonds

☐ Money market accounts

☐ Blue-chip dividend stocks

☐ Treasury bills

☐ Index funds

☐ Short-term bond funds

☐ Other:

Rationale for Short-Term Allocation

Explain why this allocation is appropriate for your short-term goal and risk tolerance:

Medium-Term Goal (5-10 years)

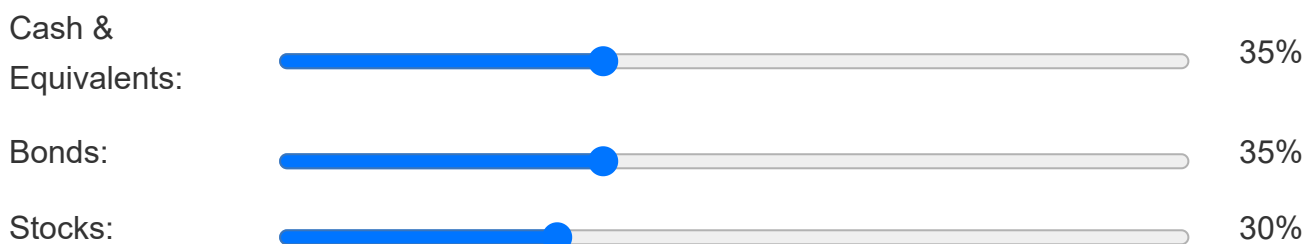
**Example goals:** Home down payment, starting a business, major life event

**My specific medium-term goal:** \_\_\_\_\_

**Target amount:** \$\_\_\_\_\_

**Timeframe:** \_\_\_\_\_

### Allocation Strategy



### Specific Investment Types (check all that apply)

- |  |  |
|--|--|
| <input type="checkbox"/> High-yield savings accounts   | <input type="checkbox"/> Blue-chip stocks                      |
| <input type="checkbox"/> Certificates of deposit (CDs) | <input type="checkbox"/> Dividend-paying stocks                |
| <input type="checkbox"/> Treasury bonds                | <input type="checkbox"/> Index funds                           |
| <input type="checkbox"/> Corporate bonds               | <input type="checkbox"/> Balanced mutual funds                 |
| <input type="checkbox"/> Municipal bonds               | <input type="checkbox"/> REITs (Real Estate Investment Trusts) |
| <input type="checkbox"/> Bond funds                    | <input type="checkbox"/> Other: _____                          |

### Rationale for Medium-Term Allocation

Explain why this allocation is appropriate for your medium-term goal and risk tolerance:

## Long-Term Goal (30+ years)

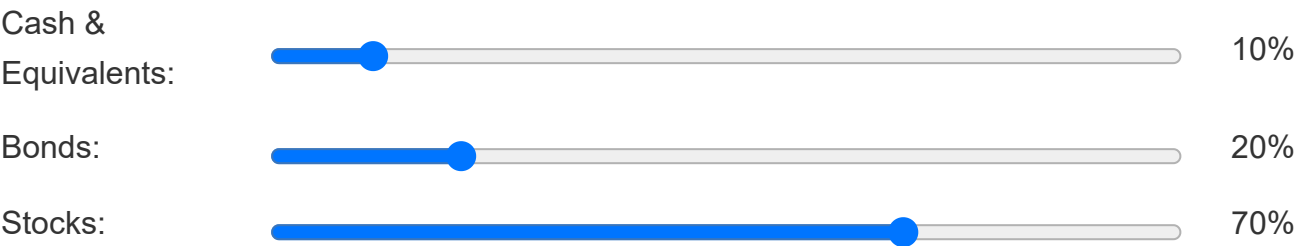
**Example goals:** Retirement, long-term wealth building

**My specific long-term goal:** \_\_\_\_\_

**Target amount:** \$\_\_\_\_\_

Timeframe: \_\_\_\_\_

Allocation Strategy



Specific Investment Types (check all that apply)

- ☐ Money market funds
- ☐ Government bonds
- ☐ Corporate bonds
- ☐ Bond funds
- ☐ Blue-chip stocks
- ☐ Growth stocks
- ☐ Dividend-paying stocks
- ☐ Index funds
- ☐ Mutual funds
- ☐ Exchange-traded funds (ETFs)
- ☐ International stocks
- ☐ Small-cap stocks
- ☐ REITs (Real Estate Investment Trusts)
- ☐ Other: \_\_\_\_\_

Rationale for Long-Term Allocation

Explain why this allocation is appropriate for your long-term goal and risk tolerance:

## Part III: Testing Allocations Against Economic Scenarios

Now, test how your allocation strategies might perform under different economic conditions. For each scenario, rate the likely performance of your allocations on a scale of 1-5 (1 = poor performance, 5 = excellent performance).

Scenario 1: Strong Economic Growth

**Description:** Economy is expanding rapidly, unemployment is low, consumer confidence is high, and corporate profits are strong. Interest rates may be rising gradually.

**Typical Impact:** Generally positive for stocks (especially growth stocks), neutral to slightly negative for bonds due to potential interest rate increases, and negative for cash relative to other assets.

**How would your allocations perform?**

| Allocation Strategy | Expected Performance (1-5) | Reasoning |
|---------------------|----------------------------|-----------|
| Short-Term Goal     |                            |           |
| Medium-Term Goal    |                            |           |
| Long-Term Goal      |                            |           |

Scenario 2: Recession

**Description:** Economic contraction, rising unemployment, declining consumer spending, and falling corporate profits. Central banks may lower interest rates to stimulate the economy.

**Typical Impact:** Generally negative for stocks, mixed for bonds (high-quality government bonds typically perform well, but corporate bonds may struggle), and stable for cash (which becomes relatively more valuable during market downturns).

**How would your allocations perform?**

| Allocation Strategy | Expected Performance (1-5) | Reasoning |
|---------------------|----------------------------|-----------|
| Short-Term Goal     |                            |           |
| Medium-Term Goal    |                            |           |
| Long-Term Goal      |                            |           |

### Scenario 3: High Inflation

**Description:** Rapidly rising prices across the economy, eroding purchasing power. Central banks may raise interest rates significantly to combat inflation.

**Typical Impact:** Generally negative for bonds (especially longer-term), mixed for stocks (certain sectors may perform well), and negative for cash and cash equivalents as purchasing power erodes.

**How would your allocations perform?**

| Allocation Strategy | Expected Performance (1-5) | Reasoning |
|---------------------|----------------------------|-----------|
| Short-Term Goal     |                            |           |
| Medium-Term Goal    |                            |           |
| Long-Term Goal      |                            |           |

### Scenario 4: Market Volatility

**Description:** Frequent and significant swings in market values, potentially triggered by geopolitical events, policy changes, or market uncertainty. The overall economic direction might be unclear.

**Typical Impact:** Challenging for most assets, with diversified portfolios typically weathering volatility better than concentrated ones. Low-correlation assets become particularly valuable.

**How would your allocations perform?**

| Allocation Strategy | Expected Performance (1-5) | Reasoning |
|---------------------|----------------------------|-----------|
| Short-Term Goal     |                            |           |
| Medium-Term Goal    |                            |           |
| Long-Term Goal      |                            |           |

## Part IV: Allocation Strategy Adjustments

Based on your analysis of how your allocations would perform under different economic scenarios, would you make any adjustments to your original allocation strategies?

Short-Term Goal Allocation Adjustments

Medium-Term Goal Allocation Adjustments

Long-Term Goal Allocation Adjustments

## Part V: Reflection

## Time Horizon and Risk

How does your time horizon (when you'll need the money) affect the level of risk that's appropriate for each goal?

## Diversification Value

After testing your allocations against different economic scenarios, what have you learned about the value of diversification?

## Risk Tolerance vs. Time Horizon

In what situations might your personal risk tolerance conflict with what's theoretically appropriate for your time horizon? How would you resolve this conflict?

## Key Takeaways

- Different time horizons require different investment strategies, regardless of your personal risk tolerance
- Diversification helps manage risk in various economic conditions
- The longer your time horizon, the more market volatility you can typically withstand



- Regular review and adjustment of your investment strategy is essential as economic conditions and personal circumstances change
- There is no perfect allocation that performs well in all economic scenarios