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BUSE 120

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Module 14 Exercise – Investment Strategy

1. Financial goal:

**My goal is to invest for my retirement, that is 57 years from today.**

1. Vanguard recommendation:
   1. Short-term reserves: **None**
   2. Bonds: **20%**
   3. Stocks: **80%**
2. Capital and asset allocation:
   1. How much of your $50,000 investment will you put into savings/riskless investments?

**0% because I still have much time before I retire. Even if the market crashes few years from now, my investments have plenty of time to recover and compound.**

* 1. How much of your investment will you put into stocks?

**I will put 35% of my investment into stocks.**

* 1. How much of your investment will you put into bonds?

**I will put 10% of my investment into bonds.**

* 1. How much of your investment will you put into other asset categories?

**40% into real estate, and 5% into commodities**

* 1. Does your decision in 3A-D represent more, less, or the same risk as the Vanguard recommendation?

**My decision to only invest 35% into stocks, 10% into bonds and the rest into real estate and commodities has lower risk than the one’s recommended to me by Vanguard. This is because it has less allocation into stocks and more into real estate and commodities which I believe are less risky investment than stocks.**

* 1. If you chose to invest differently than the Vanguard recommendation, please briefly explain your reasoning for that choice.

**I have chosen to invest 40% ($20,000) to start investing in real estate and some into commodities at the expense of some percentage from stocks and bonds to diversify my assets further. I specifically deducted more than half of what is recommended to me in stocks because I want to focus on investing in real estate. Since I will be retiring more than 5 decades from now, it will be more rewarding to invest in real estate than in the stock market. Some of the reasons why I am inclined to invest in real estate are: Tax benefits, tangible investment, potential cash cow.**

1. Security selection:
   1. There are two basic strategies for security selections: active management and passive management. Explain the difference between these two in enough detail so that someone who is unfamiliar with these terms can distinguish between them.

**Passive management is an investment strategy that approaches investing passively by investing in index funds that follows an index of a particular asset class, e.g. S&P 500, Dow Jones Industrial Average, etc. The goal for this investment strategy is to minimize risk while passively investing in the market. In contrast, active management strategy aims to maximize return and minimize risk but actively follows the market for new opportunities and avoid market declines. This style of investing requires more time and expertise to successfully manage one’s own portfolio.**

* 1. Will you use active management or passive management in your own investment?

**I will exercise both active and passive management style in different assets.**

* 1. Why do you think this approach is best for you? Provide at lease one specific advantage of the approach you choose.

**I choose to invest both actively and passively because I intend to invest passively in bonds and commodities, actively in real estate, and a mixed of both in stocks. This approach is advantageous to me because I don’t want to spend much time picking bonds and commodities to invest in as those investment have lower rate of return and steady. Stocks, however, I plan on investing half of the allocated portion into index funds or mutual funds that follow Blue-chip, NASDAQ and others. The other half I will invest actively purely for experimental purposes with stocks that has higher beta (volatility). The rest will be actively invested in real estate that I hope will turn into a cash cow and become a passive income.**