Angela Rizzolo: Okay. Our next Women’s Bureau person to introduce our next speaker will be Frances Jefferson, and she is the Regional Administrator for the Denver region.

Frances Jefferson: Good afternoon, everyone. I’d like to introduce to you Alyssa Rakovich, a financial planning specialist and certified retirement planning consultant with Smith Barney, a subsidiary of Citigroup.

Since 1998, Alyssa has been providing wealth management solutions to the growing needs of high net worth individuals, families and businesses. Alyssa is a life insurance and annuity coordinator for Smith Barney’s office in Charleston, South Carolina, and is one of the top advisors in the nation in credit and lending.

She received her BA from the College of Charleston and attended Hatfield College in Durham, England. Welcome, Alyssa.

Alyssa Rakovich: Thank you. Today I’ll be discussing the components of a successful portfolio. Portfolio management is not an exact science, but discipline is the key to success. There are three steps in the process – establishing objectives, building the portfolio, and ongoing evaluation.

What are your objectives? You have to determine what your level of risk is, and risk is different for each individual. We have to define risk. It’s either the loss of money, the loss of expected returns, portfolio volatility over time, or the loss of your purchasing power. You have to be sure you’re clear in defining what risk means to you so you can assess the most appropriate investments.
Then we move to return, and return can be achieved in two ways; either through capital gains or income. A total return approach is maximizing your returns using both income and capital gains. The issue you have to look at regarding return is the taxable status of income and capital gains because it may vary.

When you realize the gains, are they going to be short-term or long-term, greater or less than a year? And what are your expectations? Are they realistic? Many investors want to maximize returns without taking any risk, and this is unrealistic. If you want to achieve greater returns, you have to incur greater risks.

It’s important to compare expected historical returns for the asset classes you’re looking at to invest in. What’s been the return for this asset class, and where do I think I’ll get my return from going forward in the future?

Modern portfolio theory states the longer the investor’s time horizon, the more exposure the investor can have toward riskier asset classes. This is important because investors need to know, am I going to need this money in a year? Well, if so, I better not put it in the stock market.

Market cycles usually last three to five years and that constitutes the length of an entire economic cycle. All an economic cycle is is the compression and expansion of the economy, and it usually takes three to five years to go through that.

A great many things can be said about the relationship between time and investing, but the important thing is the time to invest is when you
have the money to invest. So we know our risk/return parameters; we have determined our time horizons; we have an amount available to invest. Now we have to build the portfolio.

This leads us to asset allocation. It’s critical in achieving desired results. There are steps to designing a portfolio. First, we have to decide what asset classes we want to include and which we want to exclude. It’s important to determine this in weighing where we want to put our money, what areas of the market do we want – bonds, cash, or equities?

Then we go on to selecting if we want to overweight -- do we want to be like the S&P 500, do we want to take more risk than the S&P 500 or less risk than the S&P 500? And this is important in developing a portfolio.

So how do we determine what asset allocation is appropriate to us? Well, there’s a little rule, and it says 100 minus the investor’s age equals the percentage of investable assets in equity. It’s an old rule, and rules are made to be broken. So if you’re 30 years old, it would say you need 70% in equity, but it doesn’t take into consideration any specifics like your personal risk tolerance or any of your unique characteristics, but it’s a benchmark and a starting point that we can use when we begin to go and build a portfolio.

So now we build a portfolio – step two. There are two approaches you can take when you actually physically start to build an investment portfolio, and I start with two strategies: taking a tops down approach or a bottoms up approach.
Tops down says you look at the economy -- what interest rates are doing, what the market’s doing. Then you go to sectors of the economy. Then you move to industries, and then you look at individual investments – stocks, bonds, etcetera.

The bottoms up strategy focuses only on investing in individual stocks. It’s important to remember that neither style is correct; they’re just different philosophies, and each individual has to develop his or her own style when investing.

So what is a sector? A sector just is a particular area of business activity within the economy. Sectors are healthcare, financials, utility, energy. There are 12 sectors you can have exposure to. The more conservative you want to be, the more you’re going to base your investments on all the sectors of the market.

The more risky you may want to be, you may put more percentages in one or more of the riskier sectors. For example, technology is considered a more risky sector. If you want to be a little more risky, you may put more money in technology.

Then you look at determining two types of securities to invest in – core or tactical. A core holding is a one-decision stock. Only one decision has to be made – when to buy it. These are well-managed companies; they deliver a high quality of goods and services. The only thing you have to know is the price.

The price determines when you want to buy it. Stocks usually trade in a trading range, and usually there are times of the year when they’re higher and times of the year when they’re lower. Core stocks you can
put in a limit order and say I want to buy this stock when it hits this price.

A tactical stock is a two-decision stock. You have to decide when you want to buy it, and you have to decide when you want to sell it. There’s no one method for stock selection that’s perfect, but you have to have a discipline. If you don’t have a method, a list of questions or criteria that you consistently use when you build a portfolio, you’ll be just wasting your time and resources.

Some of the questions that I ask myself when I build a portfolio -- I use macro questions first. Does this stock or mutual fund or bond fit into my investment policy statement? Am I playing a trend? Am I playing a market cycle? What are the fundamentals, the future expectations of growth for this particular investment? How does that growth compare to that of its industry? Are the earnings rising or falling? What’s the quality and consistency of those earnings?

Then I look at valuations, price-to-earnings growth, cash flow multiples, price sales. Then I look at the actual data. What is the risk and return, risk/reward, the downside, the upside? What could go wrong? And then finally, is there a sense of urgency or is this a household name that I want to hold forever?

So how many stocks should you include -- stocks or mutual funds, exchange-traded funds, whatever you’re building your portfolio [of] -- how many do you want? Well, that depends. You don’t want to put all of your eggs in one basket, so you want to diversify. If you have one stock in your portfolio and it declines 20%, well, you’re down 20%. But if you have 20 stocks in your portfolio and one goes down 20%, you’re only down 1%. 
The last step is ongoing evaluation, managing your portfolio. You can’t time the market. It’s time in the market, not timing the market that counts. You have to have an effective sell discipline. When you find yourself getting emotional or tied to a particular stock, you have to ask yourself objective questions. Has the reason I purchased the stock changed?

Create mechanical sell disciplines for yourself. If this stock goes up X% from where I buy it, I’m going to take a percentage off the table. If this stock goes down X% from where I buy it, I’m going to take a percentage off the table.

Questions to ask when making sell decisions – I have a list of those, and they usually go something like, have the fundamentals of the company changed? What’s the outlook for this company? Are there better opportunities somewhere else other than these funds that I’ve invested in right now?

And then, moving forward, there are common investing errors that everybody makes, and they usually start with unclear investment objectives. What am I trying to accomplish with my money? Am I seeking to build wealth over time? Do I need to preserve my capital and use it to generate income? Do I need a plan for a changing lifestyle? Do I need to provide education for my kids?

Answer your questions. That will help you clearly specify your goals. You have to ask, how does this investment fit into my overall portfolio? How does it compare with other investments with similar rates of return or potential for growth? Is it a short-term or long-term investment?
Understand tax laws, and this is tricky because the tax laws change every year. So it seems essential that you have to continue to review how much money can I put into my 401(k) this year. How much can I put into a Roth [IRA] or [a traditional] IRA?

Too many investors want to get rich quick. People are always disappointed when their expectations are not realized. We believe at Smith Barney that only a long-term view can lead to a long-range financial success. The real definition of investing will and always will be based on fundamental principles. You have to review basics and ask yourself key questions before you devise any goals or strategies to invest.

Building a portfolio is like building a house. You want to start with a strong foundation. Buy stocks in companies you understand, and don’t be afraid to make mistakes. And that’s just a little advice we can give you.

Some of the ways that you can get started; if you like particular stocks and you want to dollar cost average in them, there are things called DRIPS, D-R-I-P-S. They’re dividend investment programs that are set up where you can buy a share in a company and then call that company and directly invest in more shares of that company.

You can use ETFs, exchange-traded funds, building models of those funds. If you go style or specialty ETFs, they are more broad-based. You can buy actual iShares indexes or PowerShares indexes. If you want to get a little bit more risky, you can buy actual individually sector-based ETFs. You can buy sectors like consumer staples, energy, financials, healthcare. There’s a place where you can go
online, [www.etfconnect.com](http://www.etfconnect.com) and it lists every ETF available for investment.

Thank you and good luck.