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Focus on the NEXT GENERATION
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This is not Your Father's Asset Allocation

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In the investment world, 2008 was the year that changed many people's attitudes about investing. The market was down 37% in 2008, the worst single year performance in the stock market since the Great Depression. Even after 2009's impressive rally, we are still down 20% from the end of 2007 and down almost 30% from the all time peak in October of 2007.

As investment professionals, we can look at 2008 in one of two ways. First, we can say that it was an anomaly, a "Black Swan." It was really only something that happens once in a generation; certainly nothing that can be protected against.

The second opinion is that 2008, while rare, is something that happens and can happen again. We must protect against such a devastating loss in any given year, especially for clients who are in or nearing retirement. We here at Castle Investment Advisors definitely fall into this second camp.

Normally, when trying to protect assets, investment advisors will diversify into bonds. They will point to 2008 and show that the bond market was up almost 6%, proving that their bond diversification worked. However, this is only half the story.

In 2008 the bond market was roiled as much, or maybe more, than the stock market. While the total bond market was up, Treasuries made up more than all of the returns. Short-term Treasuries were up over 6%, Intermediate-term Treasuries were up over 13% and Long-term Treasuries were up over 22%.

So how did the overall bond market only average 5% for 2008? Corporate bonds were down anywhere from single digits for short-term bonds to 20% - 30% for longer-term maturities, to 50%+ for high yield and mortgage bonds. In some spaces there were corporate bonds that lost more than in the stock market.

A more recent addition to the diversifying mix has been commodities. Many people purchased stocks in commodities-related companies (i.e. Exxon), while others invested in indexes that track the physical goods. In both cases, losses in 2008 were huge. Real estate, normally another good diversifier, had the same fate. Therefore, as investors, we have to move beyond the traditional Stocks/Bonds/Cash theory of diversification.

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This is not Your Father's Asset Allocation *(continued)*

We need to look for other investments that will hold up when other areas of the market are falling apart. Without giving away any of our research secrets, here are some of the areas that investors should consider to truly diversify their portfolio:

- Foreign Currencies
- Treasury Inflation Protected Securities (TIPS)
- Preferred Stocks
- Structured Notes
- Market Neutral Funds
- Long / Short Managers
- Hedging Strategies
- Direct Real Estate Investments

Some of these may sound exotic or even scary (who wants a hedge fund?), but these are the some of the investments that can provide the kind of protection in down markets everyone wants. It is also what our investment committee has been researching and spending time on due diligence over the past year or more. We continue to look for more and better ways to give clients a true diversified portfolio that will perform well in the new economy that we are all facing.

Michael Kalscheur, CFP®, is a Senior Financial Consultant at Castle Wealth Advisors, LLC. Castle specializes in helping wealthy families and closely-held business owners with strategies to protect and transition family assets from one generation to the next. Castle's senior partners also work with clients throughout the country in making logical decisions to help them fulfill their personal and business financial goals. For more information visit www.Castle3.com, call 1-888-849-9559 or contact Michael directly at Michael@Castle3.com.

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