This project has been supported by an American Council on Education – Alfred P. Sloan Foundation Faculty Retirement Transition award to San José State University
Overview

- Retirement Investment Planning
- Target Portfolio, Life Cycle and Investment Strategy
- Diversification
- Taxes
Retirement Investment Planning

- Holistic approach to retirement investment planning
  - CalPERS, Social Security, Defined- Contribution Plan, Saving Accounts, etc...

- Determinants of investment planning
  - Risk aversion
  - Age
  - Family status
  - Career
  - Health
Target Portfolio, Life Cycle and Investment Strategy

- Target portfolio
- Rebalancing and investment life cycle
- Market timing
  - Friesen and Sapp (2007)
- Pay yourself first
Diversification

- Don’t put all your eggs in one basket
- Why diversification?
  - Reduction in investment-specific risk

**Figure 7.2** Portfolio diversification. The average standard deviation of returns of portfolios composed of only one stock was 49.2%. The average portfolio risk fell rapidly as the number of stocks included in the portfolio increased. In the limit, portfolio risk could be reduced to only 19.2%.

Diversification

- How to diversify?
  - Individual securities vs. Mutual Funds and ETFs
  - Active vs. passive management
    - Gruber (1996)

- Diversification across asset classes
  - Stocks, Bonds, T-bills, Real Estate, Commodities, etc…

- Diversification across sectors and market capitalization
  - Consumer Goods, Financial Services, Healthcare, Technology, etc…
  - Small, Medium, and Large Firms
## Diversification

- Diversification across geographical regions

### Equity - Domestic market capitalization (USD millions)

Source: World Federation of Exchanges members

<table>
<thead>
<tr>
<th>Exchanges</th>
<th>April 2013 US$ Millions</th>
<th>April 2013 % WFE Total</th>
</tr>
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<tbody>
<tr>
<td>NASDAQ OMX</td>
<td>5 105 064.2</td>
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<td>NYSE Euronext (US)</td>
<td>15 571 595.6</td>
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<table>
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<tr>
<th>Region</th>
<th>April 2013 US$ Millions</th>
<th>April 2013 % WFE Total</th>
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<tbody>
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<td>Americas</td>
<td>25 199 169.2</td>
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<td>Asia - Pacific</td>
<td>18 102 995.3</td>
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<td>Europe - Africa - Middle East</td>
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<td>WFE Total</td>
<td>58 538 860.5</td>
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Taxes and Investments

- Tax-exempt and tax-deferred accounts vs. taxable accounts

- Investment characteristics and account tax status
Conclusion

• Investment strategy
  ◦ Diversified portfolio
  ◦ Life cycle considerations

• Be consistent with contributions

• Do NOT time the market

• Keep it simple!
References


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