



ASSET ALLOCATION

Determining an appropriate asset allocation is the most important investment decision the PSERS Board makes.

“All investments involve risk. We manage risk rather than returns.”

Why is diversification across multiple asset classes important?

The asset allocation process involves dividing investment dollars among asset categories that do not all respond to the same market forces in the same way at the same time. Though there are no guarantees, ideally, if your investments in one category are performing poorly, you will have assets in another category that are performing well. Any gains in the latter may offset the losses in the former, minimizing the overall effect on your portfolio. A portfolio that is invested in a mix of asset classes, rather than just one or two, will tend to produce higher returns with lower risk.

What is Asset Allocation?

- Asset allocation refers to the implementation of an investment strategy that seeks to balance reward (investment return) and risk (volatility of returns) by mixing various assets based on an investor’s risk profile and return goal.
- Stocks, bonds, and cash or cash alternatives are the three most common broad components of an asset allocation strategy.
- Institutional portfolios often use other investment strategies which are a subset or blend of these three broad categories in order to enhance return and reduce risk.

