Allocating assets

By Steven M. Zimberg
special writer


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Following the "Black Monday" stock market crash of 1987, which caught most of the world by surprise, a new approach to investing sprung up as a way to minimize losses.

Asset allocation has become the hot topic these days among most money managers because it appeals to investors' lower risk tolerance. Its approach is to sprinkle money between stocks, bonds and risk free securities and thereby avoid the dramatic volatility swings that periodically hit these investment markets.

The theory holds that a balanced allocation will minimize major setbacks, yet stay positioned to share in the gains of rising markets when it collapsed 30 percent in October 1987. Using asset allocation, your actual portfolio would have declined 10 percent or a third of the setback. Likewise, with your other positions equally divided between bonds and money markets, your total portfolio decline would be even less.

During 1987, investors using asset allocation became winners by suffering reduced losses. This ultimately set the stage for money managers to regain client confidence by instituting a way to avoid the uncertainties and downside risks inherent in the marketplace.

THERE ARE many formulas for dividing money under the asset allocation system. The most popular is the buy and hold approach. This is also the easiest method because once you set your balance, say 33 percent stocks, 33 percent bonds and 33 percent cash, you would maintain this posture for the long term.

Another common asset allocation method permits the money manager or investor to make minor changes to their portfolio depending on market conditions. In this case, when a stock market advance is likely, a usually small amount equaling approximately 10 percent is switched from either cash or bonds and into stocks. Conversely, when the market is falling, a minor switch back to stocks or bonds would be made.

However, asset allocation does have its pitfalls. The main disadvantage of this money management approach is overall mediocre performance. Because of the diversification, usually two of the three positions are moving at opposite directions.

For example, during the first half of 1989, while interest rates and the stock market moved higher, the performance on the average asset allocation model was flat. While the stocks rose, the bonds values fell sharply — resulting in a wash. Although the remaining funds in money markets earned interest, the total return was disappointing.

Flexible Plan Investments Ltd., a registered investment adviser headquartered in Birmingham, feels that asset allocation is not a solution because it discounts the value of timing. And timing is everything. Nobody wants their money in a particular market that's losing value, or for that matter, just staying flat.

AND ALTHOUGH nobody knows the future, there are many indicators which, if tested over long periods of time, would safely avoid periods of major declines. It's a simple case of using discipline to implement changes in investment positions whenever these indicators tell us a switch is necessary.

Steven Zimberg is director of marketing for Flexible Plan Investments Ltd.

First media award

Loraine McClish received the first Community Service Award ever given to a member of the media by Goodwill Industries of Greater Detroit. The award is presented by Gene Knapp, vice chairman of the Goodwill board, at the organization's spring awards luncheon. McClish, Farmington Observer Suburban Life editor, was given the award for writing about a fund-raising event, the reasons behind the event and Goodwill's mission of providing employment opportunities for those with disabilities.

The highest

Farmington Hills resident Lisa Wolf got her kite up the highest and won first place in the 6-10-year-old age group in a kite-flying afternoon at Kyota Japanese Steakhouse. Kite day was one of a series of Japanese cultural events that introduced the steakhouse on Haggerty and Eight Mile Road to the community.

Receives commission


Richard Koshowsky

Cadet Richard S. Koshowsky, II, son of Mr. and Mrs. Richard Koshowsky of Farmington, graduated from Marion Military Institute this spring. Cadet Koshowsky received an associate in arts degree and in later ceremonies was commissioned a Second Lieutenant in the United States Army Reserve.

Cadet Koshowsky is listed on the second semester dean's list.

Marion Military Institute is one of only six military junior colleges in the U.S. that host the Army ROTC two-year commissioning program.

Presides over festival


Chrkysoula Mello

Chrysoula Mello, queen representative for Holy Cross Greek Orthodox Church of Farmington Hills, was selected co-queen of the Greek Ethnic Festival held at Hart Plaza over Memorial Day weekend.

She is the daughter of Mr. and Mrs. James Mello of Milford. She recently graduated from Mercy High School and is an active member of Holy Cross Church where she has served as a teacher's aide in the Sunday School program.

This is not the first honor bestowed on her. In April of this year she was crowned "Miss Perfect Teen of Michigan." She will proceed to the national pageant in October.

new voices

BRIAN AND CATHY HARRIS of Farmington Hills announce the birth of their son Andrew Stephen, born May 27 in Garden City Osteopathic Hospital. The infant has three brothers, Dustin, Adam and Jonathan.

His grandparents are John and Dorothy Crandall of Dearborn Heights and Leonard and Velda Harris, former residents of Farmington Hills who are now living in Orlando, Fla.

JOE AND SHERRI HANNAH, former residents of Farmington and now residing in Pelican Lake, Wisc., announce the birth of their son Chad Joseph, born June 13 in Wausau Hospital Center.

The infants grandparents are Mr. and Mrs. Andrew Hannah of Canton and Mr. and Mrs. Richard Pappin of Wisconsin.

77-year-old takes diploma

Ann Mae Krsul, a 77 year old resident of Marian, Oakland-West, achieved a self-imposed goal of earning her high school diploma this month.

She received her diploma during ceremonies conducted by Clarenceville Schools. The district has provided adult education and high school continuation classes to Marian, Oakland-West for five years. Krsul was one of the program's original students.