

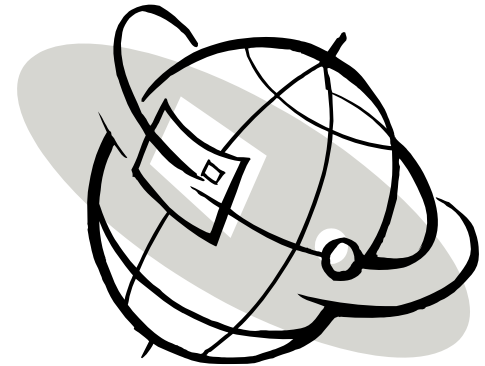
Quarterly Insight

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Have you heard? Blakeslee & Blakeslee has a new location!

In July our San Luis Obispo office moved from our Madonna location to a brand new home. We are now located at: **1101 Marsh Street in San Luis Obispo**. It is a great place and we are settling in quite nicely. Give us a call to set up a time to come in for an appointment! Also, remember Blakeslee & Blakeslee is having an **OPEN HOUSE** that is welcome to all clients on September 18th from 3:30-6:30. Come and join us!



Diversification vs. Asset Allocation

The phrase "don't put all your eggs in one basket" is often used as an illustration of diversification. Having all your investments in a single security or investment can result in the entire portfolio being significantly reduced in value. Diversification, or the action of spreading a portfolio among various securities or investments, may help reduce this risk.

Most investors achieve diversification by investing in mutual funds because they are, by design, diversified; they hold multiple securities designed to meet the same objective within a single portfolio. Asset allocation, on the other hand, is a strategy that diversifies a portfolio beyond multiple securities and spreads the amount invested over several investment classes (stocks, bonds, cash, etc.).

By strategically diversifying investments by asset categories, declines in any one particular asset class may be offset, and the fluctuations of the performance of the total portfolio may be reduced. ***Although these strategies are designed to mitigate the risks of fluctuation, the use of diversification and asset allocation does not guarantee that participants will be protected against loss in a declining market.*

In addition to mitigating risk, an appropriate asset allocation strategy should reduce the temptation of investors trying to time their buys and sells with the ups and downs of the market. This means that they will be less likely to "buy high and sell low," and they will remain invested in the market during down cycles and benefit from rallies as they develop.

Asset allocation strategies are established to meet the individual needs of each investor based on their time horizon, risk tolerance and goals. As a result, there is no "one size fits all" when it comes to asset allocation strategies and the investment options available in your portfolio should cover most or all of the core asset classes.

“These investment vehicles are a core component of an appropriate asset allocation strategy...”

Overview of Asset Classes

The following discusses the various asset categories and how they are generally used in the development of a portfolio.

Cash and fixed rate equivalents:

These investment vehicles are a core component of an appropriate asset allocation strategy to provide security and guarantee of investment principal. They generally are considered lower risk and provide a small to modest return. These options include:

Money market mutual funds typically invest in short-term fixed income securities with maturities of less than one year. Investments generally include certificates of deposit, bank repurchase agreements, Treasury securities, and commercial paper. Interest earned will fluctuate on a daily basis. An investment in a money market or cash fund is not insured or guaranteed by the FDIC or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.

Fixed annuities are general account obligations offered by insurance companies. The insurance company guarantees the return of principal and typically provides a minimum guaranteed interest rate for the current quarter, current year, and/or life of the contract. These investments typically have a longer maturity period, which can range from 1 year to as many as 20 years. Investments generally include corporate mortgage bonds, corporate bonds, government securities, and Treasury and Government-backed securities. Guarantees are subject to the claims-paying ability of the issuing insurance company.

Bank or credit union savings options are normally insured by federal or state agencies. Investments are typically short-term and provide interest at current market rates that may be adjusted on a month, quarter, semi-annual or annual basis.

Bonds:

Bond investment options provide investors with a low to moderate risk/return alternative. Bond mutual funds may invest in a mix of government and corporate bonds. These funds typically offer a higher rate of return than cash-type investments and carry a higher level of investment risk than cash equivalents.

Bond Ratings

Rating organizations (such as Standard & Poor's and Moody's) rate the level of risk of corporate, municipal and government issued securities based on current research. The rating system indicates the likelihood that the issuer will default on interest or capital payments. Bond ratings generally range from AAA to D (default).

High-quality domestic bonds are usually investment-grade bonds that have been rated BBB or higher by leading bond rating agencies. These investments may be short-term (three years or less in duration), intermediate-term (three to 5 years in duration) or long-term (over 5 years in duration).

High-yield domestic bonds are lower quality bonds offered by corporations or municipalities. They are typically rated BB or lower by leading bond rating agencies. They have sometimes been referred to as "junk bonds," but can offer higher yields and higher potential for capital gains than high quality bonds.

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**Remember to “pay yourself first,
because nobody else will.”**

International bonds are offered by governments or corporations of non-U.S. issuers. They may be subject to foreign currency, accounting and political risks that domestic bonds do not experience. Limited availability of information may also be a factor. However, international bonds may offer higher returns than domestic bonds and additional diversification within the bond asset class.

Stocks:

There are several categories of stock (or equity) investments offered to investors that provide them with the ability to establish an appropriate asset allocation strategy in an attempt to diversify risk. Equities come with higher investment risk than cash or bond securities. In exchange for assuming this risk, investors gain the potential for higher returns. Here are just a few of the stock investments available.

Large cap stocks are issued by companies that have market capitalizations in excess of \$10 billion dollars. Blue chip companies are typically included in this category since they are the older, more established, and well-known companies that sell high-quality, widely accepted products and services. The Standard and Poor's (S&P) 500 Index is a common benchmark for the large cap asset class.

Mid cap stocks are issued by companies that have market capitalizations between \$2 billion and \$10 billion. These stocks are from companies that are generally younger and less well-known as those identified as large cap, but are more developed companies than small cap. The S&P 400 MidCap Stock Index is a common benchmark for the mid cap asset class.

Small cap stocks are issued by companies that have market capitalizations between \$300 million and \$2 billion. They may be newer companies with higher debt and/or lower profit margins than other companies. Stocks of small or emerging companies may have less liquidity than those of larger established companies and may be subject to greater price volatility and risk than the overall stock market. The S&P 600 SmallCap Index is a common benchmark for the small cap asset class.

International stocks are issued by corporations that are traded on market exchanges outside the U.S. The Morgan Stanley Capital Incorporated Europe, Australia, and Far East Index (MSCI EAFE) is a common benchmark for international stock markets. Beyond the inherent risks of investing in stocks, international or foreign companies may be subject to additional risks such as exchange rate risk and country risk. Many countries suffer from political, social, and economic instability, which adds additional risk when investing in those places.

Within the domestic and foreign equity classes, there are additional defined categories to delineate the investment philosophy or style of the mutual fund investments. The following provides an explanation of these three categories: growth, value or blend.

Growth funds invest in stocks of companies that are experiencing a higher rate of growth than other companies. These types of companies may be paying a lower dividend rate or no dividends, but may have current earnings that are growing at a faster rate than the market.

Value funds invest in stocks of companies that may be out of favor with the current market, but are typically more established companies that pay dividends at a rate higher than the market average.

Blend funds use a combination of growth and value securities and produce returns that are more in line with the current market conditions. Typically, blend funds will vary their investments towards more growth than value, and vice versa, whenever the market is appearing to favor one style of investment over another.

****Investors should carefully consider their investment objectives, risks, charges and expenses when considering a change of investment strategy. We encourage you to come in and discuss your portfolio with your financial advisor.**