

## 5.1 Everyone is a portfolio manager now

Everyone is responsible for their own financial success. In the past, a combination of social security and company pensions provided a secure retirement for most people. However, in the past thirty years the proportion of workers covered by defined benefit pension plans has declined substantially and has been replaced by defined contribution plans, under which each participant is responsible for managing his or her own portfolio. You have to come up with reasonable investment strategies. A first step in doing so is to estimate future returns on the major asset classes – like equities, bonds and real estate.

Once you estimate expected returns on the alternative asset classes, the next step is to make the asset allocation decision – namely, what proportion of your portfolio do you want to allocate to each major asset class. This will depend on the expected returns and risks and also on your own degree of comfort with taking on investment risk. It is important to include the value of your future earning power, your human capital, in this calculation.

on Sense Investing, Wiley, 2007.