Personal Financial Planning - Investment Portfolio Construction

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Experience and Background: Ramesh works as a Risk and Analytics executive at one of the largest global Private Equity firms on Wall Street. He has more than 20 years of experience in personal financial planning and investments, and has advised friends and family through three major financial crises: the Dot-Com bust (2001), the Great Recession (2008) and Covid (2020).

Investment Philosophy: Ramesh advocates a disciplined, long-term approach to investing rather than one driven by greed or fear. In a core portfolio, it is futile to time the market. His Horizon Investing method takes the guesswork and fear out of investing, reduces stress and builds a disciplined path to financial success.

Portfolio Construction: Roadmap

A simple framework for building a portfolio around your life

1. **Start With the Goal**
   What does the money need to accomplish?
2. **Understand Risk**
   Tolerance, capacity, required return and time horizon
3. **Horizon Investing**
   Match investment risk to when the money is needed
4. **Diversify**
   Build resilience within each asset class
5. **Implement Simply**
   Broad exposure, low friction and tax awareness
6. **Stay Disciplined**
   Rebalance, avoid market timing and behavior traps

1

Start With the Goal

Define what the money needs to do



What Makes a Portfolio “Perfect”?

There is no universally perfect portfolio.



Meets Your Goals

The portfolio exists to fund real-life objectives, not to win a performance contest.



Fits Your Risk

Risk should reflect your ability and willingness to absorb losses before money is needed.



You Can Stick With It

A portfolio that is abandoned in a bad market is not a good portfolio for you.

Book inspiration: Your Perfect Portfolio, by Cullen Roche

Start With the Goal, Not the Investment

Before asking "Which fund should I buy?", answer four questions:



1. What is the money for?

Retirement, college, home, emergency reserve, legacy…



2. How much will you need?

Estimate the dollar amount, not just a vague goal.



3. When will you need it?

The withdrawal date is central to how much market risk you can take.



4. What if markets fail?

Could you wait, spend less, or use other resources instead of selling?

Portfolio construction is an output of financial planning.

Different Dollars Have Different Jobs

The same person can appropriately invest different dollars very differently.



Emergency Reserve

Now / < 1 Year

Capital stability



Home Down Payment

~2 Years

Very low risk



College

~6 Years

Moderate risk



Retirement

25+ Years

Growth risk

Key idea: Age does not determine the risk of every dollar. Time horizon does.

2

Understand Risk

Weigh tolerance, capacity and return



Risk: More Than “Can You Handle Volatility?”

A sensible portfolio balances four different questions:



Risk Tolerance

How much loss or volatility can you emotionally tolerate?

YOUR PORTFOLIO RISK

Risk Capacity

How much loss can your financial plan actually absorb?





Required Return

How much return is needed to reach the goal, not simply desired?

Time Horizon

How long can the money remain invested before it may be needed?



If these conflict, the portfolio usually needs to become more conservative, not more aggressive.

3

Horizon Investing

Match risk to the spending date



FinSolve Horizon Investing: Four Buckets

Shorter horizon → lower-risk assets | Longer horizon → more capacity for risk



< 2 Years

Very Low Risk

Money Market / CDs



2–4 Years

Low Risk

Investment-Grade Bonds



5–6 Years

Medium Risk

Corporate / Bullet Bonds



7+ Years

Higher Risk

Broad Stock Market

Core principle: match the risk of each dollar to the horizon of the goal it is intended to fund.

What Goes Into Each Bucket?

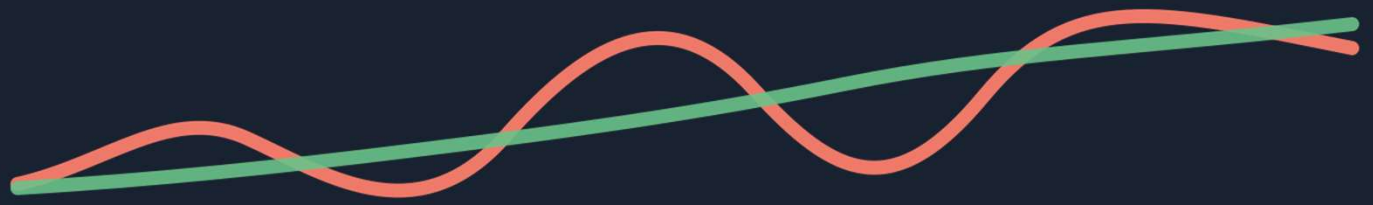
Illustrative building blocks by time horizon

Bucket	Time Horizon	Primary Objective	Illustrative Core Assets	Main Concern
1	< 2 Years	Liquidity & principal stability	Money market, CDs	Inflation / reinvestment
2	2–4 Years	Low volatility & income	Total investment-grade bonds	Rate changes
3	5–6 Years	Moderate income / growth	Investment-grade corporate or bullet bonds	Credit / duration
4	7+ Years	Long-term growth	Broad stock-market index	Market drawdowns

Examples are building blocks, not product recommendations. Diversification and tax location come later.

Why the 7+ Year Equity Horizon Matters

Stocks can fall sharply at the wrong time. The issue is not whether you like volatility, but whether you can wait.



Market path (volatile) Long-term trend

Short Horizon

Protect the spending date from market-timing risk.

Long Horizon

Allows growth assets time to absorb market cycles.

Flexibility Helps

Other income or the ability to delay spending increases risk capacity.

Time is a risk-management tool, not a guarantee that stocks will be up on a particular date.

Asset Allocation Is an Output of the Plan

Instead of choosing a "60/40 portfolio" first, estimate the dollars in each horizon bucket.



1. Financial Needs

- < 2 yrs: $100K
- 2–4 yrs: $150K
- 5–6 yrs: $100K
- 7+ yrs: $650K

→



2. Horizon Buckets

- Bucket 1: 10%
- Bucket 2: 15%
- Bucket 3: 10%
- Bucket 4: 65%

→



3. Resulting Allocation

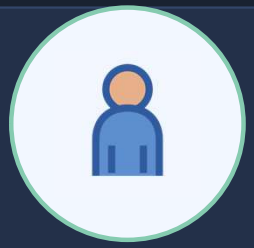
- Cash: 10%
- Bonds: 25%
- Stocks: 65%
- Total: 100%

Horizon is the starting point. Risk capacity and tolerance can make the final allocation more conservative.

*Tip: use **FinSolve** (free download at www.FinSolve.us) to estimate how much goes in each bucket.*

Three Investors, Three Different Portfolios

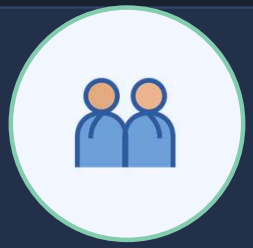
Same framework. Different goals. Different horizons. Different portfolio.



Age 30

Long runway; most retirement money is 7+ years out, while house and emergency money stay conservative.

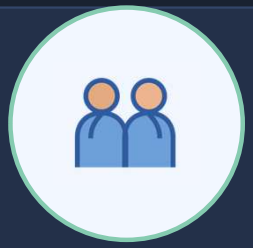
Growth capacity



Age 50

Retirement approaches; some money begins moving into intermediate buckets.

Transition phase



Age 68

Spending begins; near-term cash flow needs stability while long-term money can still grow.

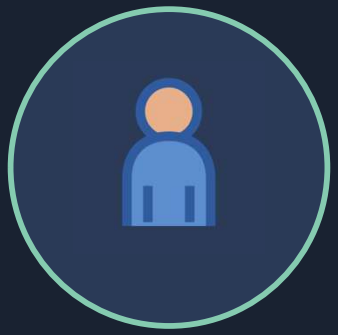
Income + growth

One Investor Can Have Multiple Portfolios

Age alone does not determine risk. The goal and time horizon of each dollar matter.

Emergency Reserve
Now / < 1 year
Bucket 1 · Cash / money market

House Down Payment
~2 years
Bucket 1–2 · Cash / short bonds



Retirement
25+ years
Bucket 4 · Broad equity exposure

The “right” portfolio
May be different for each goal.

Turn Savings Into a “Forever Paycheck”

Retirement is not just accumulating assets. It is turning them into reliable spending power.



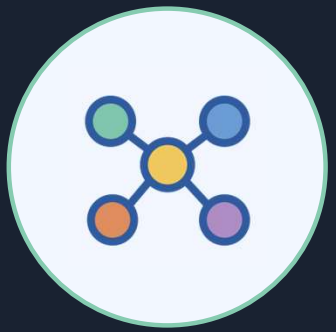
Why this matters: Research by Blanchett and Finke (2024) finds that each dollar held as guaranteed lifetime income is associated with roughly twice the added spending of a dollar held in investments. Retirees feel they have a “license to spend.”

Concept inspired by Jean Chatzky, The Forever Paycheck (2026). Research: Blanchett & Finke, “Guaranteed Income: A License to Spend,” Retirement Income Institute.

4

Diversify

Build resilience inside each bucket



Diversify Inside the Buckets

Diversification is not owning "many things." It is avoiding dependence on one thing.



Savings / Cash

FDIC-insured savings and CDs, Treasury bills, laddered CDs, money market funds

Capital stability



Bonds

Treasury, municipal, investment-grade corporate, diversified funds; know your duration

Income + stability



Stocks

Broad-market index funds, U.S. and international exposure; avoid single-stock concentration

Long-term growth

Sample Portfolios

Four representative asset allocation models

Classic 60/40

60% Global Stocks
40% US Bonds

EXPECTED ANNUAL RETURN
6.4%[1]

CURRENT YIELD
3.0%[3]

Balanced benchmark: growth with downside protection.

Bogleheads 3-Fund

48% US / 32% Intl Stocks
20% US Bonds

EXPECTED ANNUAL RETURN
6.6%[2]

CURRENT YIELD
2.3%[3]

Low-cost, globally diversified passive index model.

Global Cap Portfolio

55% Stocks / 35% Bonds
10% REITs

EXPECTED ANNUAL RETURN
6.4%[2]

CURRENT YIELD
3.1%[3]

Tracks global weights of stocks, bonds and real assets.

All-Weather / Multi-Asset

30% Stocks / 55% Bonds
15% Commodities

EXPECTED ANNUAL RETURN
5.4%[2]

CURRENT YIELD
3.4%[3]

Built for inflation, deflation and growth regimes.

[1] J.P. Morgan's published 60/40 forecast (MSCI ACWI / US Agg). [2] Weighted average of J.P. Morgan asset-class return forecasts.
[3] Weighted average of index yields: US stocks 1.0%, intl 2.2%, global 1.4%, US bonds 5.5%, REITs 3.8%, commodities 0%.
Sources: J.P. Morgan, *2026 Long-Term Capital Market Assumptions* (10–15 yr, Sep 30, 2025); iShares, Vanguard fund data, Aug–Oct 2026.

Core Portfolio + Fun Portfolio



The fun portfolio can satisfy the urge to experiment without jeopardizing the plan.

5

Implement Simply

Turn the framework into a portfolio



Keep the Implementation Simple

Investment selection should serve the portfolio plan, not replace it.



1. Use broad-market funds

A core portfolio can often be built with a small number of diversified index funds or ETFs.



2. Keep costs and taxes low

Fees, turnover and taxable distributions quietly reduce long-term results.



3. Automate good behavior

Dollar-cost averaging and scheduled reviews reduce emotional decisions.



4. Avoid product confusion

A complicated product is not the same thing as a better portfolio.

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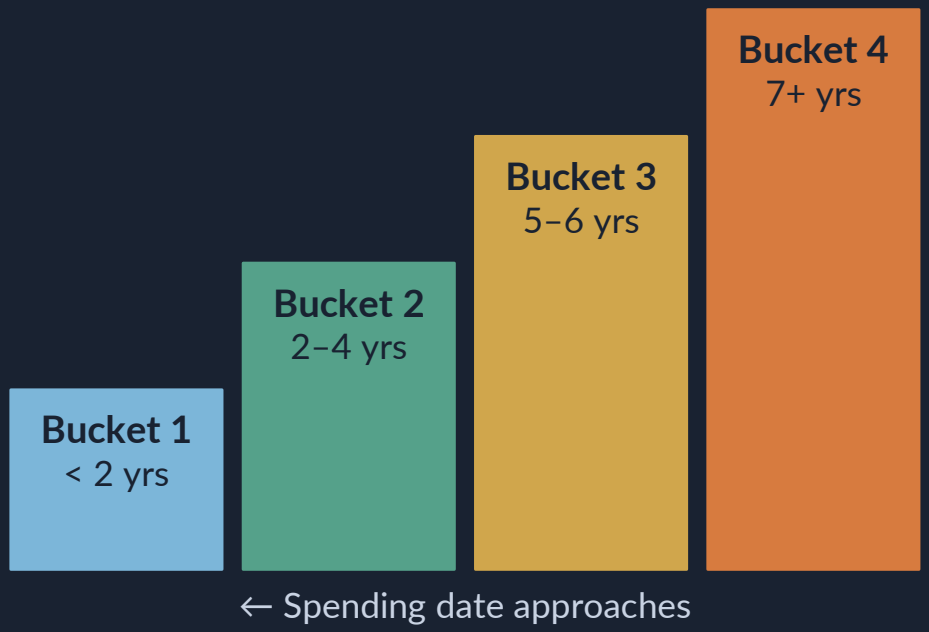
Stay Disciplined

Rebalance and avoid behavior traps



Rebalancing: Keep the Plan on Track

As the spending date nears, money can shift from growth buckets to stability buckets.



Markets move

Strong equity markets can make the portfolio riskier than intended.

Time passes

A 7-year goal eventually becomes a 2-year goal.

Review periodically

Quarterly or annual review can be reasonable; avoid market timing.

Rebalancing is maintenance, not prediction.

The Investor Can Be the Biggest Risk

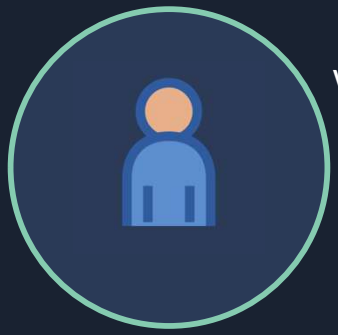
A good portfolio is one you can actually live with when markets are uncomfortable.

Panic selling

Selling growth assets during declines because near-term needs were not protected.

Too much tinkering

Frequent changes that turn a plan into market timing.



Performance chasing

Buying what recently went up without understanding the risk.

Concentration

Letting employer stock, hot stocks, or speculation dominate the plan.

Your Portfolio Construction Roadmap

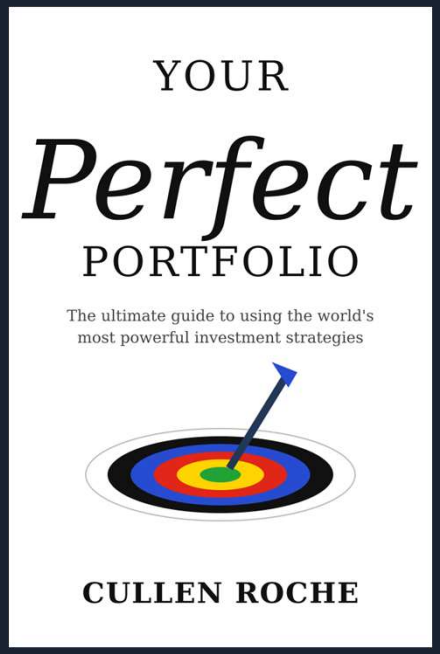
Match each dollar to its job and horizon, then keep the plan working.

1. Goal
2. When Needed
3. Horizon Bucket
4. Asset Allocation
5. Diversify
6. Implement
7. Rebalance
8. Stay Disciplined

Don’t ask “What is the best portfolio?” Ask “What does this money need to do, and when will I need it?”

Further Reading: Two Recommended Books

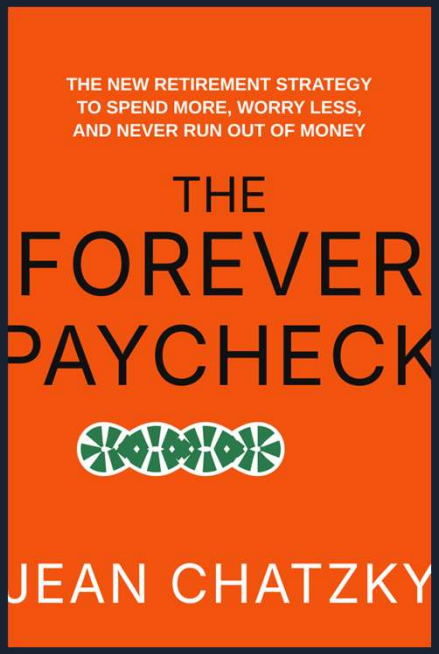
Deepen your understanding of portfolio structure and retirement income



Your Perfect Portfolio

by Cullen Roche (2026)

- Ten principles of portfolio construction
- 20+ well-known strategies compared
- The best portfolio is the one you can stick with



The Forever Paycheck

by Jean Chatzky (2026)

- Turning savings into reliable lifetime income
- A step-by-step plan, written with AARP
- Spend more, worry less

Recap: Key Takeaways

Build the portfolio around your plan, not the other way around.

1 Start with the goal

Every dollar has a job, an amount and a date.

2 Risk is four questions

Tolerance, capacity, required return and time horizon.

3 Time sets the bucket

Cash under 2 years, bonds for 2–6 years, stocks for 7+.

4 Allocation is an output

Add up the buckets instead of picking a 60/40 first.

5 Diversify each bucket

Keep the core at 90% or more; fun money at 10% or less.

6 Keep it simple

Low-cost funds, rebalance as dates near, avoid panic selling.

Questions?

Learn more at www.FinSolve.us