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Perfect Portfolios: Updated

Our latest suggestions for investors at various stages of life, along with a few recommended adjustments.

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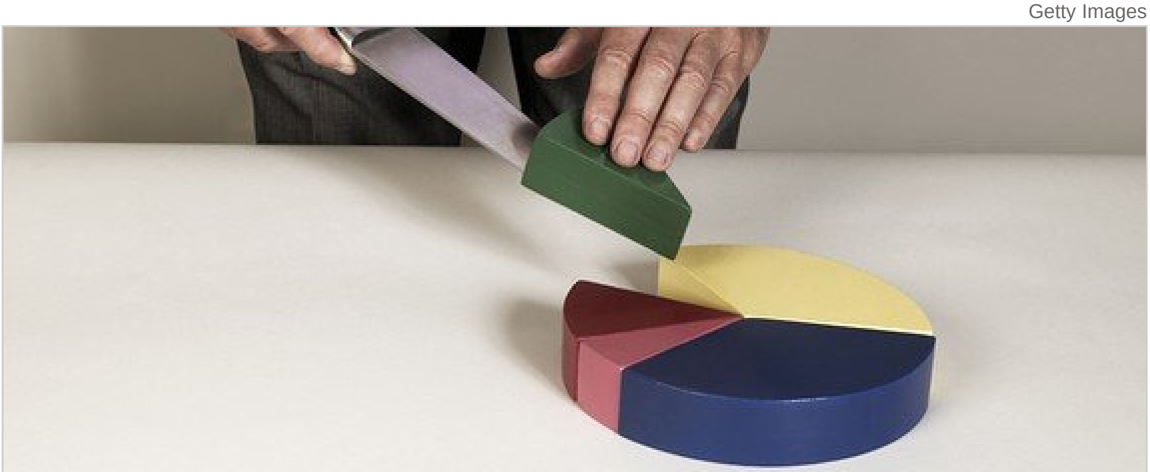


Stocks have been on a tear, but many investors are still skittish about joining Wall Street's party. It's no wonder, with rising gas prices fueling concerns of an economic slowdown and oil's not the only commodity that's been surging. Gold, silver and grains have also skyrocketed. But many investors realize that shying away from stocks will hurt them in the long run. So what's an investor to do?

Financial planners say it's best to stick with a long-term strategy. But that doesn't mean that investors should set their asset allocation and forget about it. Large-cap, U.S. dividend-paying stocks offer some of the best values in today's market, strategists say. And many U.S. multinationals, like Coca-Cola, also give investors exposure to fast-growing emerging markets. With inflation fears on the horizon, commodities can act as a hedge. But it might be time to trim positions on some of the hottest commodities, like gold. Another way to offset inflation is through Treasury inflation-protected securities (TIPS), which are bonds that make adjustments based on the consumer price index. But bonds in general could suffer if interest rates rise, so some pros recommend focusing your bond portfolio on shorter-term bonds.

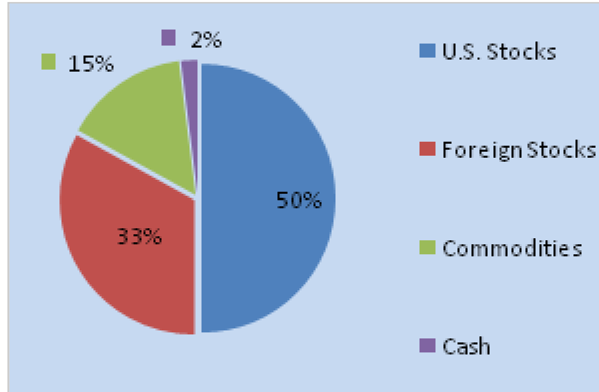
The right mix of assets depends on lots of things, of course, including investors' appetite for risk, the size of their savings and their time horizon. While no single approach is right for everyone, each month SmartMoney provides a suggested mix of assets for investors at various stages of life. Below, our latest thinking, along with a few recommended adjustments.

The Portfolios:

- 25-year-old carefree bachelor
- 40-year-old couple with kid headed to college
- 70-year-old multimillionaire couple with lots of potential heirs
- 35-year-old married couple with a young child
- 42-year-old couple; husband is unemployed
- 75-year-old widow
- 32-year-old professional planning to return to grad school
- 34-year-old recent newlyweds
- 50-year-old couple with two kids in college
- 55-year-old single parent, kids finished college
- 57-year-old empty nesters
- 65-year-old marathon runner

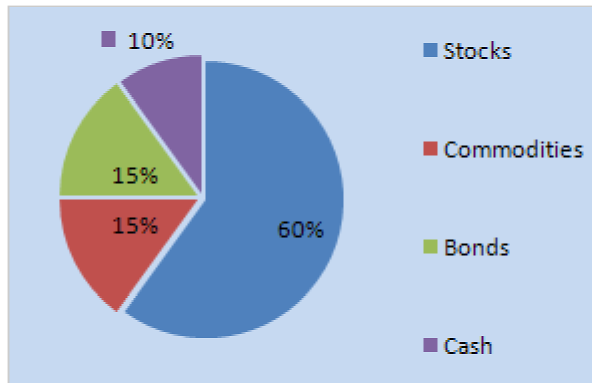
25-year-old carefree bachelor

Disasters and conflict overseas might make you pause before investing abroad, but don't be swayed by short-term events: You're still decades away from retirement. Sizzling economies like China's and Brazil's can offer a world of opportunity for young investors, which is why many pros suggest you put roughly a third of your portfolio abroad. Commodities, meanwhile, can be a good offset for inflation and provide more diversification.



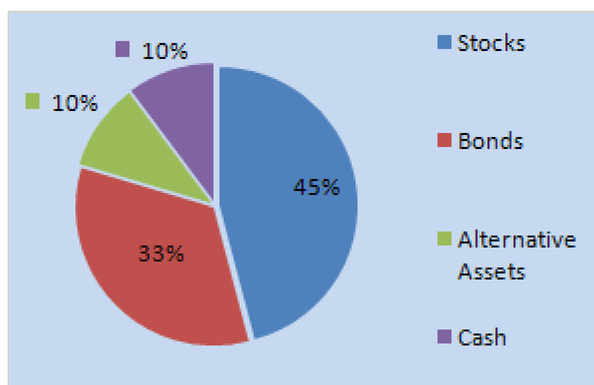
40-year-old couple with kid headed to college

Even as you dip into your savings to cover Johnny's tuition, you should still keep a big chunk of your assets in stocks. Many advisers say bonds are a little dicey these days, and offer few bargains to boot reasons to put slightly less of your portfolio in fixed-income investments. Consider shifting a portion of your bond portfolio into high-yield bonds, the subsector that some professional investors find the most attractive now. So-called junk bonds the name alone shouldn't scare you off typically behave more like stocks than bonds.



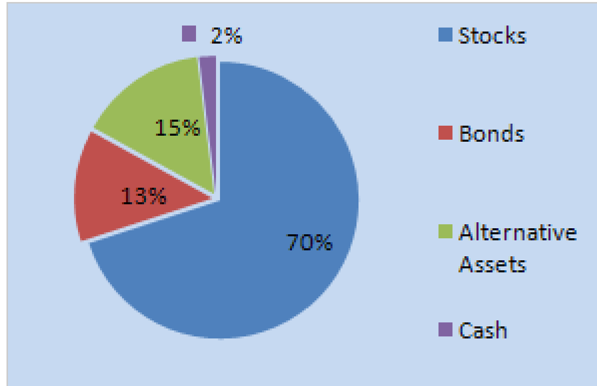
70-year-old multimillionaire couple with lots of potential heirs

Thanks to smart decisions earlier in life, you aren't fretting about outliving your savings. With your heirs in mind, you can stuff your portfolio with foreign stocks and alternative assets. And if you're helping the grandkids with, say, a 529 plan, you can be aggressive with that portfolio, says planner Roger Wohlner, of Asset Strategy Consultants in Arlington Heights, Ill.



35-year-old married couple with a young child

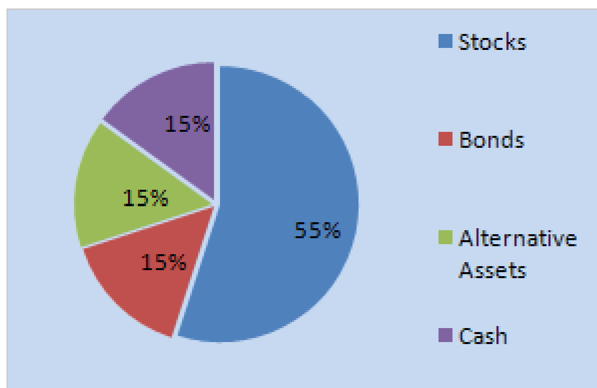
You have many years before Junior heads off to college and even longer before you're likely to retire, so you should emphasize stocks. Despite jitters in foreign markets because of political uprisings in the Middle East and debt woes in Europe, experts still recommend investing a portion of your portfolio overseas. Bonds could suffer if interest rates rise, so investment pros say you should only put a small amount of your portfolio in a short-term bond fund. You might want to invest some of your savings in



alternative assets like commodity funds or so called market-neutral funds, which can reduce portfolio volatility because they aren't generally correlated with equity and fixed-income markets. Jason Jenkins, the president of Causeworth Asset Management in San Diego, says you should be just as aggressive with a college-savings fund while your children are young, but gradually shift those accounts to hold more bonds and cash as the kids near college age.

42-year-old couple; husband is unemployed

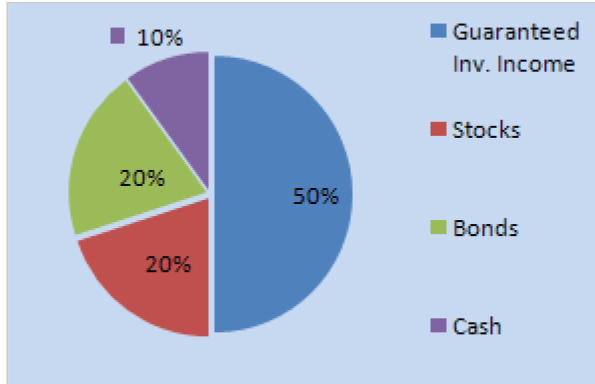
Hiring has been picking up recently, but until you land a new job consider being more conservative with your family's portfolio. Doug Kinsey, a partner at Artifex Financial Group in Oakwood, Ohio, says that both stocks and bonds might be more volatile in the near future because the markets have had a huge run-up. You don't want to be forced to tap your portfolio



to make up for lost income right after the markets tank. Kinsey recommends alternative assets as a potentially more stable than traditional stocks and bonds this year. In addition to commodities, such as corn or timber, he says real estate investments can also balance out portfolio risk. Real estate might include real estate investment trusts (REITs), equity in a second home or rental properties.

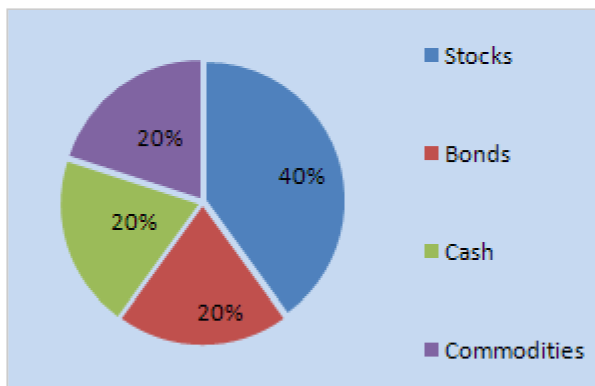
75-year-old widow

If you need to make up for the loss of your late husband's pension and Social Security checks, you may consider putting about half of your savings into a guaranteed investment such as a fixed annuity a type of insurance product. Since bond prices and interest rates move in the opposite direction and rates are historically low now many experts say large-cap, dividend-paying stocks might be a safer way to generate income than a bond portfolio. Doug Kinsey, a partner at Artifex Financial Group in Oakwood, Ohio, recommends owning a bond fund or a portfolio of individual bonds with an average duration of less than 10 years. As a hedge against the "increasing prospect of rising inflation," he says, fixed-income investors should also put part of their portfolios in Treasury inflation-protected securities (TIPS), bonds that make adjustments based on the Consumer Price Index.



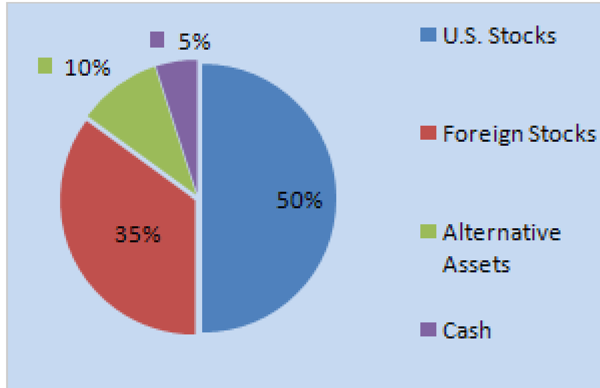
32-year-old professional planning to return to grad school

both stocks and bonds might be more volatile over the next few years because they've risen sharply since the financial crisis two years ago. If you're planning to spend part of your savings on school, then you should probably hold more cash than most investors your age you don't want to be forced to sell while prices are low in order to cover tuition. Jason Jenkins, president of Causeworth Asset Management in San Diego,says you should still own some commodities as a hedge against inflation, which he says is his "biggest concern for all investors now." Owning commodities either through a mutual fund or an exchange-traded fund can also help balance out the volatility of a stock portfolio, because commodities typically zig when thebroader markets zag.



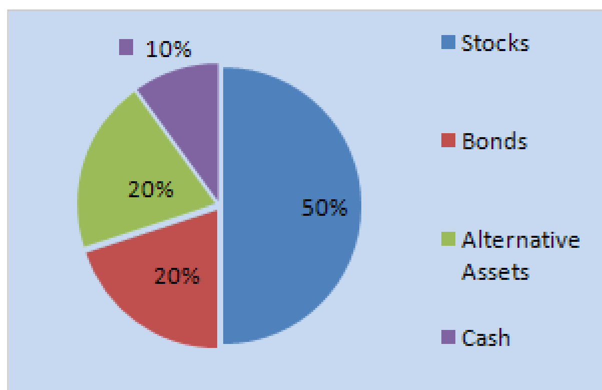
34-year-old recent newlyweds

You've got decades to go before retirement, so keep most of your money in stocks. You should put a hefty portion of your portfolio in foreign markets, including emerging markets like Brazil or India, which are growing faster than the U.S. Don't ignore developed markets like Germany or Norway, though. These countries are in sound fiscal shape unlike many of their European peers and have multinational corporations that are generating big profits and paying good dividends. Many experts point to dividend-paying stocks as a better income alternative than bonds now, because if interest rates rise, bond prices would fall. Assuming you don't need to tap your portfolio for income, you might want to balance out your stock portfolio with alternative assets. Gold and other commodities have had a huge run-up, so investors should consider trimming their positions in these assets, says Ben Marks, president of Marks Group Wealth Management in Minnetonka, Minn. As part of his clients' alternative asset allocation, Marks includes an exchange-traded fund that shorts 10-year U.S. Treasury bonds; it rises when bond prices fall.

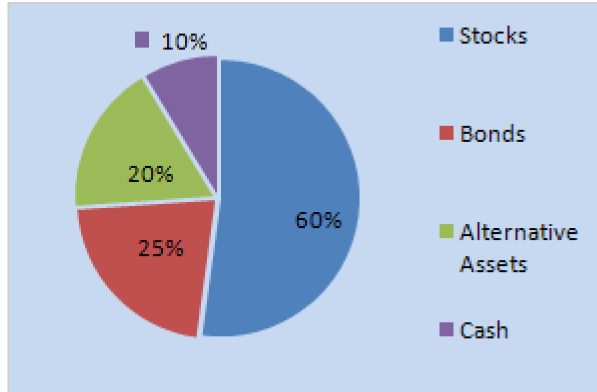


50-year-old couple with two kids in college

You've reached the age when, historically, investors began shifting some of their portfolio from stocks to bonds. Yet investment experts say the bond market might be lumpy over the next few years, especially if rising interest rates put pressure on bond prices. If you're planning to retire at 62, gradually scale down your equity exposure to around half of your assets. You can keep it a bit higher than that if you plan to retire later, says Loretta Nolan, a fee-only financial planner in Old Greenwich, Conn. But that doesn't mean you need to pour all of the money that you take out of stocks into bonds. Experts point to alternative assets such as commodities, real estate or market neutral funds as a substitute for bonds.

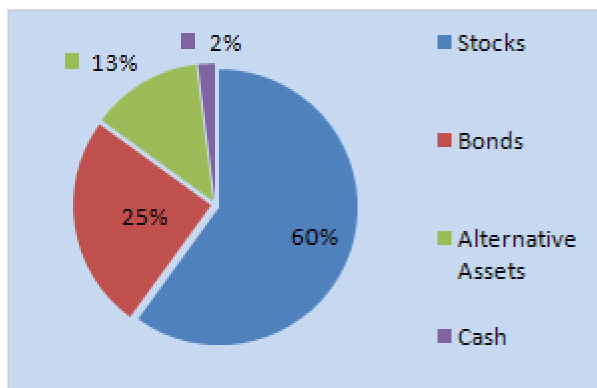


55-year-old single parent, kids finished college



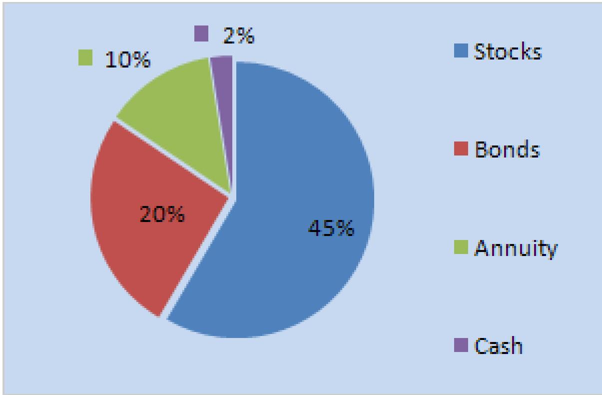
If your nest egg is falling short of your goals, consider being a bit more aggressive with your investment choices. Despite concerns about bloated government debt in Europe and political risks in the Middle East, you can't afford to ignore the economic growth in foreign markets. Experts recommend keeping a smaller portion of your portfolio in bonds than is usually suggested for investors your age because rising interest rates could hurt the prices of existing bonds. Roger Wohlner, a financial planner with Asset Strategy Consultants in Arlington Heights, Ill., says you should keep your fixed-income portfolio in short-term bonds with an average duration of less than 10 years. If you're really worried about rising interest rates, Wohlner points to certificates of deposit, which are "laddered" to mature in different years, as an alternative to a bond portfolio. "We are being very cautious with bonds," he says.

57-year-old empty nesters



Now that the kids have flown the coop, it's time to focus more on saving for your golden years. You've got to keep the bulk of your portfolio in stocks, but with retirement approaching it's a delicate balancing act. "You've really got to be careful to eke out that growth without taking on additional risk," says Carleton McHenry, a financial adviser with offices in Houston and Austin, Texas. One way to invest for growth without taking undue risk, McHenry says, is through the Vanguard Dividend Appreciation fund (VIG), an exchange-traded fund that invests in companies with a history of increasing their dividends. Many experts recommend using alternative assets to balance out a stock portfolio. Alternatives could include commodities, real estate or market-neutral funds, which aim to make money in all kinds of markets.

65-year-old marathon runner



If you're in remarkably good health for your age, then you should plan on stretching your nest egg for decades. It might sound odd to say this, but "longevity is the biggest risk here," says Carleton McHenry, a financial adviser with offices in Houston and Austin, Texas. Putting 10 percent of your portfolio into a low-cost annuity could help you avoid outliving your assets, McHenry suggests. Experts recommend treading cautiously in bonds, because rising interest rates could put pressure on bond prices. Depending on your assets and the time you want to spend managing your investments, you might want to consider owning rental properties, which can balance out the zigs and zags in your stock portfolio. If you don't want the hassle of being a landlord, then allocate the alternative part of your portfolio to commodities or a market-neutral fund, which aims to make money in both rising and falling markets.