

# What Is A Balanced Portfolio?

*By Mark Charnet*



When I was growing up in Pompton Lakes, NJ in the late 1960's and early 1970's, my parents defined a balanced portfolio as not having all of your money saved in one bank or safety deposit box. In fact, that was the reason there were so many banks in Pompton Lakes to begin with, according to them. One might have thought that my town was loaded with rich folks, just based on the number of banks within the three square miles that made up the town. My parents were both only children and fortunately both sets of grandparents got along famously, traveling together from Brooklyn to Pompton Lakes to visit their children and their four grandchildren very often. I am the oldest and can remember in great detail my father's mother arguing with my mother's father about investment philosophy. My father's father Ben, worked for the Lady's International Garment Workers Union for almost 40

years and retired with a pension in the 1970's of a paltry \$84 a month. They saved money in the bank and never owned a home or any stocks or bonds other than U.S. Savings bonds. Until the last seven years of my grandfather's life, they lived in a three story walk up and never traveled out of the country.

My mother's father, Jack, according to Ben's wife Esther, was a risk taker. He bought his own Delicatessen after 25 years working for someone else in the deli business and invested his money in Utility stocks, Blue Chip stocks, Corporate Bonds and owned a condo in Florida and a car. Jack and his wife Sonia and after she died, his second wife Elsie, traveled to Europe and the mid East several times and loved to gamble in Vegas and Atlantic City. By comparison, Jack's lifestyle was abundant and Ben's was sparse. Through the eyes of this grandchild, Esther was right, Jack was a risk taker. He took a risk with his money and took a risk with his time and it paid off in spades (pun intended). Jack's pension was the sale of his deli on an installment basis that was many times greater than the \$84 that Ben received each month. He invested the down payment in a "balanced" portfolio which, upon my asking him which banks he invested in, told me he bought stock in the Dime

Savings Bank and Chase Manhattan Bank and also invested in some of the companies that supplied his deli, since he knew them and the industry very well. Ben and Esther and my parents deposited money in the banks and Jack bought stock in the banks. I began to see an interesting divergence of attitude between my parent's parents and so my journey to financial independence began at this very moment. I later learned that by investing in the bank as opposed to saving in a bank, offered twice the opportunity for gain. A savings account earns interest, but an investment account earns interest from dividends and has the potential for appreciation too. I found this very exciting and then came the bad news. My grandfather Jack told me about his silent partner that took no risks, put up nothing and yet had an entitlement to 28% or as high as 70% of all of the profits. (Remember this was the 1970's when the highest income tax bracket was 70%.) Jack, of course, was referring to Uncle Sam and even though Jack already paid taxes on the money he was investing, the government was going to tax the earnings on the previously taxed investment dollars. He was livid every time we discussed it and yearned for an opportunity where he could get stock market potential for gain and a veil of protection from taxation simultaneous-

ly. No such investment existed that offered the potential for growth in the stock market on a tax-deferred basis 35-40 years ago. **Today, luckily this investment vehicle does exist and I encourage you to attend my free workshop on this very subject November 13th at the Y in Wayne 6:30pm!**

So, every time my four grandparents got together at my house, Esther would always argue about getting a good job with benefits versus Jack's position of owning your own business and gaining equity, the chance to earn more than a salary and the opportunity to sell the business in the future for a profit. It appeared to me that working for yourself was much more appealing and rewarding, as well as investing money in the stock market for the potential of a significantly greater return. It was shortly after this time that I learned the truth about the definition of salary and I'd like to share it with you. Salary, in most cases, I have found to be, is defined as the minimum amount of money that the company need pay you to dull your ambition to look elsewhere. If you give this sentence some thought I think you'll agree with it.

What can you learn from my grandparents? As I see it, a balanced portfolio pertains to more than just your portfolio. It has to

do with the overall financial balance in your life. Taking risks are inevitable and cannot be avoided or ignored. The risk of taking no risks with your capital or your time might be the biggest risk of all! No risk - no gain. If you have a secure job that pays you a salary you are committed to, in my opinion you absolutely without exception, must take a risk with your capital to provide proper "balance" in your financial life. If you have a risky job, work strictly on commissions or are in your own business, perhaps good advice for you would be to play it a little safer with your invested portfolio as to mitigate risk and provide greater "balance" in your life. I will discuss more about portfolio management in an upcoming article. For general financial information and to learn more, check out our website: [www.1APG.com](http://www.1APG.com)

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