How I Currently Implement My Asset Allocation

Earlier this week, I posted my personal asset allocation, which I post again below for your review:

75% Stock

50% US Stock
Total US Stock Market 17.5%
Extended Market 10%
Microcaps 5%
Large Value 5%
Small Value 5%
REITs 7.5%

25% International Stock
Developed Markets 15%
Small International 5%
Emerging Markets 5%

25% Bonds
Nominal Bonds (G Fund) 12.5%
TIPS 12.5%

I currently have 5 different investing accounts, all with different expenses and different options available, as well as differing tax treatment. Those 5 accounts don’t count ESAs and 529s for each of my kids, nor the 4 accounts I’ve used in the past that don’t currently have anything them, including a SEP-IRA, two traditional IRAs I use each year to do Backdoor Roth IRA contributions, and a taxable account. With multiple investing accounts, it can be a bit of a puzzle how to best implement your asset allocation within those accounts. Hopefully seeing a real life example will make it a little more clear.
Every year it looks a little different because different amounts get added to different accounts, and investments perform differently. Only $5K total can go into my Roth IRAs, and only $5K total can go into my spouse’s Roth IRA. I can’t put any money into my old 401K. And I can put up to $50K into my current 401K. It’s easy to see that it won’t be long before I will need to move asset classes from my Roth IRAs to my current 401K. Since the only low-cost fund in my current 401K is the Schwab TSM fund, I’ll have to start using the brokerage option there soon and buy ETFs to maintain my desired asset allocation. The TSP will gradually move from G, S, and I to just G and S, then eventually will likely be all G. The separate Roth IRA at Bridgeway makes rebalancing that fund a pain. It requires that I either do part of my backdoor
Roth IRA at Bridgeway, or that I do a rollover periodically from Vanguard. I’ll likely move that asset class to my 401K eventually for simplicity (assuming I keep it.)

One principle of allocating investments into accounts that many people don’t recognize is that for easy rebalancing, each account needs to share one asset class with another account. You’ll notice that each of my accounts does that, with the exception of the Bridgeway Roth IRA. But for simplicity and to get access to lower cost admiral funds, you don’t want too many funds in each account.

One thing I’ve been pretty happy with (and worked very hard to attain) is to have a relatively large Roth portion of our retirement accounts at this stage in my career. Over half of our retirement assets will never be taxed again. We achieved that by maxing out our Roths each year in residency (I confess we didn’t quite make it one year), making Roth IRA contributions either directly or via a backdoor Roth each year, and a couple of Roth conversions at relatively low tax rates. Even though the majority of future contributions will be tax-deferred, we should still have a Roth component of significant size at retirement, allowing for tax diversification in the withdrawal phase.

One other thing I’m proud above about this implementation is that I’ve been able to keep the expenses quite low. The average expense ratio for this portfolio is 0.16%, dirt cheap
by any standard, despite having several relatively expensive asset classes—microcaps, emerging markets, and international small.

I hope you find this example helpful as you implement your own asset allocation.