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Research on Family Financial Portfolio Strategy

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Abstract—Family finance plays an important role in improving family's ability to resist risks and quality of life. The article uses descriptive research methods to explain the specific aspects of family finance, including its objective and key tools, and from the formulation process and risk aversion to determine the investment portfolio strategy for financial planners in investment and financial management in order to reach the most resourceful configuration. Finally, based on the current development of China's wealth management market, the article puts forward some suggestions on the formulation of financial planning and the improvement of financial management level to ensure the balance between the security of family financial management and the profitability of both parties.

Keywords—Family finance, Portfolio, Financial strategy

I. INTRODUCTION

Family finance is a small-scale economic community. It is a common financial plan for the family's life goals through the cooperation, and the control feedback and correction are continuously carried out as the actual situation developing. How to maintain a steady improvement in the quality of family life, a steady increase in the number of assets, and the greatest development of time and space benefits are the focus of family finance. Family finance should focus on risk aversion and profit-making according to the economic situation of the family, including the family's economic anti-risk ability and the family's economic strength, while choose the main financial management target in a certain period of time, and adopt ways and means of financial management suitable for the target[1].

II. THE KINDS AND GOALS OF FAMILY FINANCE

With the significant progress in China's market economic system reform, household disposable income and savings continue to grow. This is in line with the fact that investment methods and investment channels for family financial management are gradually increasing, mainly divided into the following tools: the first one is stock, with high risk and high return as the main features, and it is a risk investment tool, but in view of the current downturn in the stock market, ordinary families should carefully choose such financial management method; the second one is insurance which is a kind of multi-functional financial management with protection and income, along with the development of the economy, and has also played an increasingly important role in modern social life; the third one is bond, with flexible investment time limit, diversified repayment of interest and payment, and comparable standard interest rates, etc. It is widely favored in people's financial management methods. The forth one is bank deposit which have the characteristics of ultra-low risk and low return, and is the most widely understood and widely used financial management method in China; the fifth one is the fund which is a kind of means to integrate the small funds from various investment entities, because of its huge amount of funds, it also has more advantages for accessing to better investment environment compared to other financial investments, while the limits of funds used for fixed investment is relatively few[2].

The formulation of family financial management goals should be based on specific time and space, with the knowledge level, social status and family income of financial planners as the main reference standards, and the degree of understanding on financial management methods as ways and means for families. Proper investment and use of property to avoid a family economic crisis, which in turn affects family harmony. Family finance should aim at achieving financial security and wealth management. Generally speaking, financial security is the most basic financial goal. It needs to be investigated and measured from the current economic situation of the family including considerable short-term income and stable long-term income, family housing, and family education. Financial security is primarily designed for wealth managers who are risk averse[3]. Financial planners who prefer financial security objectives often have the following characteristics: household income is relatively stable, they have better expectations for future household economic income, and they are more inclined to the stable and prosperous life of existing families than high-risk and high-income. The profit from wealth management is mainly designed for family investors with risk appetite, who use the income from financial investment to meet the needs of all aspects of family life. Due to the high-risk and high-profit characteristics, it may lead to the phenomenon of "one night rich" and "one night extreme poverty" among family investors[4]. Therefore, during the process of family financial management, the investment methods for profit-seeking financial management should be more cautious.

III. FAMILY FINANCE PORTFOLIO STRATEGY

A. Formulation Process of Family Financial Investment Portfolio Strategy

1) Setting of financial goals: In the process of family financial management, in order to obtain stable income and low risk probability, the set financial goals should consider short-term, medium-term and long-term. The short-term goal is low-risk, low-yield and has the effect of property preservation, mainly for investment methods that guarantee higher liquidity. The long-term goal is based on profit, with high risk and high profitability. We need to carefully select high-quality and guaranteed wealth management products. The medium-term goal is a short-term and long-term transition. It is generally

suitable within two years. It can guarantee a certain cash flow and ensure that good investment opportunities will not be missed in the asset utilization process. Therefore, in the process of setting financial goals, different families should combine their short-term, medium-term and long-term goals based on their own actual conditions to make investment and financial management more scientific and rational[5].

2) Distribution of investment funds: After determining the scientific financial goals, the financial planner needs to formulate a portfolio according to the goals, and the most important of which is the allocation of funds required for each stage. The investor's demand is the basis for the allocation of funds in the portfolio, while the rational investment analysis is due to the key investors' preferences and needs to make choices from balanced investment portfolio for stable income and investment income and growth or other investment.

3) Inspection of portfolio strategy: The market situation is ever-changing. Whether the portfolio strategy selected by financial planners in financial planning is the most rational and in line with the actual situation or not, it must be determined according to its operation in the market. Financial planners should pay attention to changes in the market, understand the changes in their chosen investment tools, adjust their portfolio strategies in a timely manner, and continue to implement profitable portfolio strategies. Strategies for losing money should be changed in a timely manner to avoid economic losses.

4) Adjustment of portfolio strategy: In the investment process, financial planners should continuously carry out corresponding risk assessment and appreciation evaluation for investment instruments, and then adjust the portfolio strategy. The main factors affecting the adjustment of portfolio strategy are usually related to the country's policies or the domestic and international financial situation. The adjustment of the portfolio strategy is mainly based on the contingency theory in management, and the essence of the contingency theory can be used in the family financial management process.

B. Major Portfolio Strategy

1) Low risk and low return portfolio mode: Savings, insurance, and bonds as the main investment means, suit the annual income is lower than the average wage level of the city in China, and the households with the youthful development of China's economic development are gradually assumed. Such family economic conditions are susceptible to changes in the external economic situation or sudden changes, and their ability to resist risks is low. For such financial planners, their financial management objectives should be mainly financial security, and the specific distribution ratio should be based on the preferences of specific families.

2) Profit and risk combination mode: Insurance, real estate stocks and savings as the main means, suit the households that mainly are young and middle-aged who has same income as the average of the local residents. Such families have relatively stable income and rich investment experience, and can withstand certain risks while pursuing high returns. This combination of family investment and wealth management strategies can invest 70% of the funds in the stock market and real estate industry, 10% of the funds to buy insurance, and 20% of the funds in the bank.

3) Income combination model: Insurance, stocks, and savings as the main means, suit the households with annual incomes that are 1.5 times higher than the average local income level and who mainly are middle-aged. Such households pursues certain investment returns while pursuing financial security for financial management. This combination of family investment and wealth management strategies can use 50% of the funds for savings, 40% of the funds to invest in stocks to obtain high returns, and 10% of funds to purchase medical insurance and pension insurance.

4) High risk and high income model: Stocks, futures, insurance and a small amount of savings as the main means, suit the households with annual income higher than the local average income level and who mainly are young and middle-aged. Such households have relatively strong economic strength and rich investment experience. They aim to maximize the profitability of financial management and are more inclined to high-risk, high-yield wealth management products. This combination of family investment and wealth management strategies can invest 40% of the funds in the futures market for speculative profit, 40% of the funds for stock trading, 10% for different family business insurance, and 10% for savings to cope with daily living expenses.

C. Risk Aversion of Family Financial Portfolio

1) Combine multiple investment tools: On the one hand, the investment and wealth management strategy of holding a single investment vehicle is not in line with the purpose of family investment and wealth management which cannot determine the expansion of investment income based on financial security. On the other hand, because only holding one investment tool, the financial planner must depend on it. As the holding volume increases, the investment risk will gradually increase, but the rate of return will not increase. Therefore, the negative effects brought by a single investment tool will be greater than the positive effect. The marginal effect is gradually decreasing as well. Conversely, if household financial planners diversify their investment instruments, they will avoid the diminishing marginal effects of a single investment vehicle and increase the risk resistance of assets. Moreover, a diversified portfolio of investment tools will minimize the systemic risk of capital and financial market activities, enabling family managers to unify the quality and quantity of investments[6]. Therefore, family managers should combine a variety of investment tools when selecting investment tools, and conduct a rational analysis of the utility of assets to determine the holding amount of investment tools.

2) Balance investment tools in different maturities: The financial planners need to select the target period in the process of making the portfolio. For different investment vehicles, the investment period is different as well. For example, the

issuance time of national debt and local debt is composed of different deadlines ranging from as short as a few months to a long period of ten years. This is also a long-term and short-term part of the sub-project of the financial plan. The short-term goal is better for maintaining the liquidity of assets, such as demand deposits in banks, short-term liquid convertible bonds, etc.; in the medium term, there is a certain balance between income acquisition and liquidity; long-term goals meet the needs of wealth managers to pursue the psychological inclination for high returns. In short, financial management methods with different maturities are the only way for scientific and rational decision-making.

3) Focus on the benefits and risks of the portfolio: The profit level of investment instruments is often a negative correlation with risks. Therefore, financial managers can use statistical methods and probability analysis of wealth management products in the process of investment and financial management to select the "most potential" investment tool. Ordinary wealth managers can choose their own wealth management company by entrusting their funds to professional financial consultants, who can replace their own investment activities. Therefore, family financial planners must strictly measure their own strength, and must not invest blindly, while grasp the balance between income and risk, so as not to fall into the scam. Investment instruments, such as stocks, savings, bonds, and insurance which have different characteristics with different benefits and risks. When conducting financial investment activities, financial planners should make choices based on preferences and actual conditions.

IV. Recommendations for Family Finance Portfolio

A. Suggestions for Family Finance Portfolio

1) Without too much demand for an investment vehicle: If a wealth manager only uses his funds for an investment vehicle, then his asset risk will be greatly improved, and because of the wide range of changes, that the income he can obtain will become more and more unstable. This is an irrational Investment behavior. Moreover, due to the excessive holding of an investment instrument, the increase in the marginal cost is greater than the increase in the marginal benefit, that is, the marginal benefit is gradually decreasing, which is not the realization of the financial security goal. It is not in line with the realization of wealth management.

2) Proper investment ratio: A diversified portfolio ensures that the benefits earned by the wealth manager are much higher than the benefits of a single investment vehicle. In theory, financial planners can express the returns of different assets in the same coordinate system to form an indifference curve, and determine the proportion of funds allocated to investment instruments by analyzing the indifference curve. Of course, the above analysis is limited to the assumed theoretical model, while other factors such as income expectations and safety levels should be considered in the process of making actual decisions.

3) Assets distributed over different maturities: For financial planners, in the process of making a portfolio, it should be noted that the portfolio is a combination of static and dynamic. For a portfolio of different assets, a reasonable mix of investment tools with different maturities should be achieved. Short-term assets have lower yields because of their lower risk probability, but they play a very nice role in the preservation of property. They are mainly used to ensure high liquidity[7]. For the main purpose of long-term assets with profit, it is therefore necessary to select wealth management products with high reputation.

B. Ways to Improve the Financial Management Financial Management Level

1) Establish the right financial management values: Family finance is the pursuit of economic interests and the yearning for a better life by family members. It is closely related to the personality traits, styles and values of family members. Therefore, establishing the correct financial management values is the premise of investment and financial management. On the one hand, the correct financial management values require financial planners to treat profits with a normal heart. Even if there is an investment crisis, it is necessary to analyze the reasons calmly. It is also necessary to use a kind of open-mindedness and optimism of "property is the thing outside the body" and the ambition of "re-emergence". On the other hand, the correct financial management values also require financial managers to look for their own deficiencies. The saying of "Self-reflection three times a day" is indeed the best way to self-test. Establishing correct financial management values is the premise of people's happy life, and it is also the basic requirement of financial management. Contentment is always the right attitude of financial management.

2) Improve the level of knowledge related to financial management: The market is a place for survival of the fittest. When entering the market, we must reserve certain financial management knowledge, understand the market conditions, seize the opportunities offered by the market to investors, avoid some traps set by the market, and pick up the richest fruit by avoiding poisonous red apples. There is a certain gap between the high requirements of the market economy and the actual level of personal quality, which means that in order not to be eliminated by the market, the financial planners should establish the concept of lifelong learning, continue to learn, improve their ability and knowledge level, and shorten the distance between them.

3) Improve the psychological quality of personal investment and financial management: Being a qualified investment planner is the key to correcting your mindset. Excessive self-confidence will not work in the development of the market economy. It is the true mentality of investing in financial management to correctly understand oneself and determine the amount of financial management funds and financial management methods that are consistent with their own abilities. Confidence, patience and perseverance are the psychological qualities that should be held in an ever-changing

market economy. Confidence in your own eyes, not blindly following the confidence of the wind, while the patience of high-yield temptation and the perseverance of a protracted war will help financial planners get twice the result with half the effort.

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