BUILDING BLOCKS FOR RETIREMENT

Diversification

Diversification: The One Word No Investor Should Ignore

It's highly likely that the cliché "Don't put all your eggs in one basket" probably rings in the ears of every investor. Why? Because it gets to the heart of a timeless and indispensable risk-management strategy known as diversification.

Diversification Defined

True diversification involves owning a variety of investments that historically have not moved in tandem in response to market news or economic developments. By diversifying, you create the potential for the top-performing investments at any given time to help compensate for the underperformers. Diversification involves spreading your investment dollars within and/or among the three main asset categories, which are stocks, bonds and fixed income investments. The reason financial experts encourage you to think seriously about diversification is because of its potential to help protect the overall value of your portfolio against losses.

Here's how it works: Gains in one area of a diversified portfolio could offset losses elsewhere and may even help increase your overall investment value in spite of those losses. Because the stock market's top-performing investments have often changed from one year to the next, diversification may be a particularly effective way of managing risk over the long term.

A Plan For The Future

Simply put, mixing up your portfolio with complementary investments may potentially improve your chances of earning positive returns regardless of short-term market trends and fluctuations in the stock and bond markets.

Within a stock portfolio, that may mean combining growth, value, small-, mid- and large-cap, domestic and international and sector funds. With bond funds, you can diversify by holding a combination of short- and long-term, corporate and government, taxable and tax-exempt and high-yield bonds.

And remember, strategies that you implement today will need to be reviewed

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