

What Is Diversification?

Virtually every investment has some type of risk associated with it. The stock market rises and falls. An increase in interest rates can cause a decline in the bond market. No matter what you decide to invest in, risk is something you must consider.

One key to successful investing is managing risk while maintaining the potential for adequate returns on your investments. One of the most effective ways to help manage your investment risk is to diversify. Diversification is an investment strategy aimed at managing risk by spreading your money across a variety of investments such as stocks, bonds, real estate, and cash alternatives; but diversification does not guarantee a profit or protect against loss.

The main philosophy behind diversification is really quite simple: “Don’t put all your eggs in one basket.” Spreading the risk among a number of different investment categories, as well as over several different industries, can help offset a loss in any one investment.

Likewise, the power of diversification may help smooth your returns over time. As one investment increases, it may offset the decreases in another. This may allow your portfolio to ride out market fluctuations, providing a more steady performance under various economic conditions. By potentially reducing the impact of market ups and downs, diversification could go far in enhancing your comfort level with investing.

Diversification is one of the main reasons why mutual funds may be so attractive for both experienced and novice investors. Many non-institutional investors have a limited investment budget and may find it challenging to construct a portfolio that is sufficiently diversified.

For a modest initial investment, you can purchase shares in a diversified portfolio of securities. You have “built-in” diversification. Depending on the objectives of the fund, it may contain a variety of stocks, bonds, and cash vehicles, or a combination of them.

Whether you are investing in mutual funds or are putting together your own combination of stocks, bonds, and other investment vehicles, it is a good idea to keep in mind the importance of diversifying.

The value of stocks, bonds, and mutual funds fluctuate with market conditions. Shares, when sold, may be worth more or less than their original cost.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

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