Posted on: May 14, 2013

# Diversification is Key

**Tags:** investment planning [1]

As with many retirement savers, it took two stock market crashes (2001, 2008) and a global financial crisis to convince Adam and Sonya that **trying to 'time the market'** or pick specific sectors was a costly **exercise in futility.** But, with the value of their RRSPs nearly halved in the 2008 crash, they also recognized that **they could not afford to avoid equities** if they were going to have any chance of meeting their retirement goals. That's when they adopted the time-tested, academically-based **principle of diversification** in their investment strategy.

*'In 2001 and 2008 we not only sold at the wrong time (near the market bottom), we bought at the wrong time (near the market top). It was an expensive lesson to learn that no one can predict with any level of certainty the direction of the market. To make matters much worse, we had tried to bet on just a couple of specific sectors of the market which only compounded our risk.'*

Fortunately for Adam and Sonya, their **time horizon is still long enough** to rebuild their capital and benefit from steady long-term returns. This time, their focus will be on managing the risks, which are more certain rather than performance which is much more difficult to control. With a **properly diversified portfolio**, they have a much better opportunity to capture returns wherever they occur while mitigating the risk of any one particular investment.

**What is Proper Diversification?**

The key to proper diversification is recognizing that different assets have varying ranges and patterns of volatility. For example, equities as a whole as measured by a broad index ( ie: Russell 3000) are less volatile than any one subset of equities as measured by a narrow index (ie: S&P Mid Cap 400). And, because equities and bonds represent only a portion of available asset classes, diversification today can also include a broader mix of assets such as precious metals, commodities, currencies, real estate and their subsets. Because of the fundamental economic relationship between risk and return **an investor's selection of assets**, rather than the performance of any one asset, has the primary impact on that investor's long-term investment returns.

**The Importance of Global Diversification**

Most investors are surprised to learn that North American companies represent slightly more than half of the world's developed equity market (based on market capitalization) and far less than half of the global economy. Investing solely in the North American markets is, therefore, just as risky as investing in half of the sectors that comprise the S&P 500. In essence, you expose your portfolio to more volatility and risk when you invest solely in the North American markets, and you certainly miss the opportunities for the returns that are available in the global markets.

**Diversification Strategies**

Creating a properly diversified portfolio in an RRSP or TFSA account is more achievable these days because of the **availability of a wide range of investment options.** It's now possible to invest in broad cross sections of world markets through a wide variety of investment funds. However, before making any final decisions about portfolio diversification it is always recommended to consult with a qualified financial professional who can help determine the best strategy according to your unique financial situation.

---

Questions about investment planning ?

Contact our office today ! [2]

purposes only and is not intended to provide specific financial advice. It is strongly recommended that the reader seek qualified professional advice before making any financial decisions based on anything discussed in this article. This article is not to be copied or republished in any format for any reason without the written permission of the AdvisorNet Communications. The publisher does not guarantee the accuracy of the information and is not liable in any way for any error or omission.

**Source URL:**https://kevinbrewerfinancial.com/e-newsletter/2013/2013-05/article-1.htm

**Links**
[1] https://kevinbrewerfinancial.com/taxonomy/term/19 [2] https://kevinbrewerfinancial.com/contact-us