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Portfolio Diversification

Tags: investment planning [1]

Looking back over the past few years, one thing is certain - we can never be absolutely sure what the financial markets will do at any given time. We can study charts and graphs, both historical and forecasted, we can consult with economic experts, business leaders, and government officials, we can look at inflation and interest rates, and still we cannot predict the markets with absolute certainty.

But it's that uncertainty that can make investing in the markets so profitable. Without risk there would be low to no return on your investment. It's how risk is managed that becomes important in a long-term investment strategy.

Portfolio diversification is a major key to managing risk, and is best practiced before it becomes a necessity. By the time the average investor reacts to the market, much of the gains and losses will have already occurred. Diversification can protect against market losses and also take advantage of market gains.

Invest in Equities but Spread the Wealth - Historical evidence suggests that the return on equities is higher than most other investment instruments over the long term. For the average investor, however, choosing winners is difficult to do on a consistent basis. Your best bet for spreading the wealth is to work with a financial advisor who can provide portfolio diversification advice and use investment funds appropriate to your risk tolerance level.

Hedge Risk With Fixed-Income Solutions - Another way to protect against market uncertainty is to invest in fixed-income solutions. Fixed-income solutions are often in the form of government and corporate bonds that provide a fixed rate of return as well as the return of your principal investment upon maturity. There are also other types of fixed-income investments that can help you hedge risk that can be worth considering. Feel free to ask us for details.

Dollar-cost Averaging - Rome wasn't built in a day and neither will your retirement portfolio. By investing steadily and systematically, your portfolio can weather the peaks and valleys of the market much better. Remember, you're in it for the long-term benefits, not a lottery win (although that would be nice, wouldn't it?). Dollar-cost-averaging helps you protect your retirement savings against extreme market fluctuations.

There will be many market ups and downs over the years as the economy deals with different financial crises (inflation, debt, etc.) Speak to your financial advisor to learn how to protect your retirement savings from market forces beyond your control.

Contact our office [2] if you are looking for advice on investment strategies.

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