THE WHITE PAPER

Your Retirement Planning Newsletter

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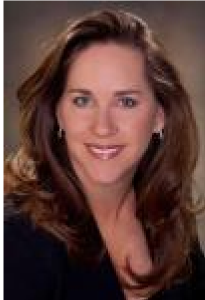

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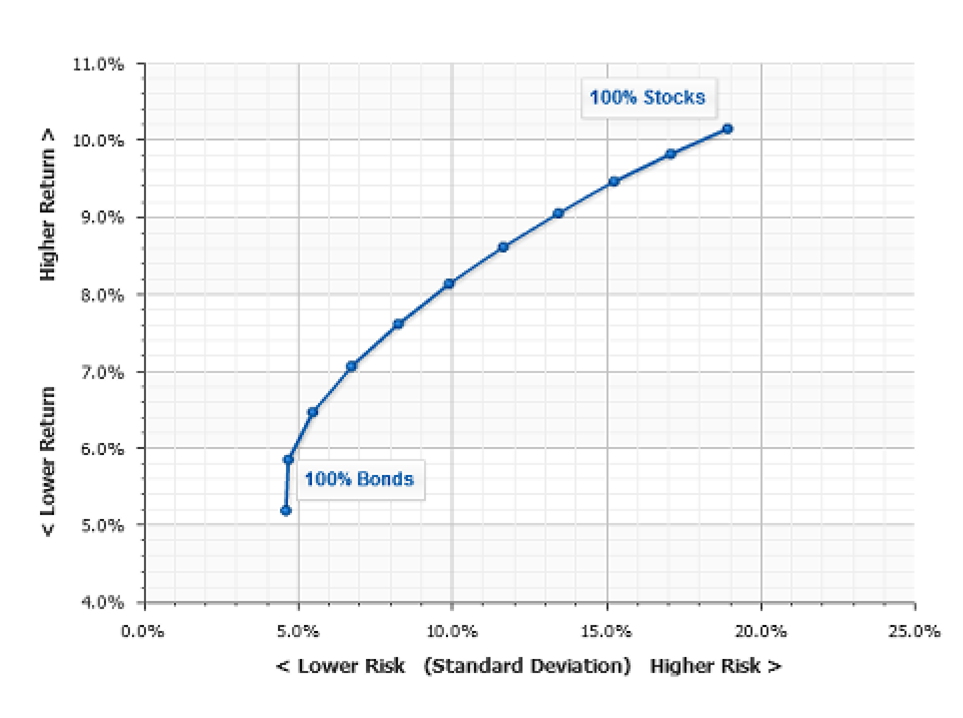
Diversification: A Big Word, With Bigger Investment Implications

In today's market environment, diversification is more important than ever.[1] But what is the thinking behind this big word? The process of diversifying -- or dividing your money among different types of investments -- is based on the idea that different asset classes tend to react differently to similar market conditions. So by diversifying your portfolio, you may help reduce the risk that a loss in one asset class will drag down your entire portfolio.

The Right Mix May Help You Manage Risk



Source: ChartSource®, Wealth Management Systems Inc. Results include total annual returns for the period January 1, 1926, through December 31, 2014. Bonds are represented by a composite of the total returns of long-term U.S. government bonds, derived from yields published by the Federal Reserve through 1972, the Barclays Long-Term Government Bond index through 1975, and the Barclays U.S. Aggregate index thereafter. Stocks are represented by the S&P 500 index. It is not possible to invest directly in an index. Past performance is not a guarantee of future results. Copyright © 2015, Wealth Management Systems Inc. All rights reserved. Not responsible for any errors or omissions.

Diversify Within and Among Asset Classes

To diversify your portfolio, first select among major asset classes, such as stocks and bonds.[2] The chart above shows how diversifying your portfolio with stocks and bonds may help reduce risk over time, although past performance is no guarantee of future results. Second, consider diversifying within an asset class, such as stocks. For example, if your primary objective is growth, you might choose to invest the majority of your money in "blue-chip" stocks and small-cap stocks.[3] You may also want to consider adding foreign investments to your portfolio mix.[4] Foreign investments make up more than half of the world's total market, so if you are not investing overseas, you may be limiting your opportunities.

Sometimes Less Is More

Diversification is often described as putting your eggs in different baskets. The mix of "baskets" you choose should depend on your goals, time frame for those goals, and ability to tolerate risk. Long-term investors may choose more stock investments, while shorter-term investors may select a mix weighted toward bonds and cash investments such as certificates of deposit.[5]

No matter what combination you choose, make sure each investment plays a specific role in your overall objective. In investing, more is not always better -- strategic diversification is the key.

This communication is not intended as investment advice and should not be treated as such. Each individual's situation is different. You should contact your financial professional to discuss your personal situation.

[1] *There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.*

[2] *Investing in stocks involves risks, including loss of principal. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price.*

[3] *Securities of smaller companies may be more volatile than those of larger companies. The illiquidity of the small-cap market may adversely affect the value of these investments.*

[4] *Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations, and may not be suitable for all investors.*

[5] *CDs are FDIC insured and offer a fixed rate of return if held to maturity.*

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