

A Look at Diversification

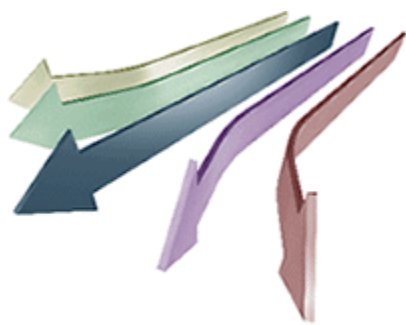
Ancient Chinese merchants were said to have developed a unique way to manage their risk. They would divide their shipments among several different vessels. That way, if one ship were to sink or be attacked by pirates, the rest stood a good chance of getting through. Thus, the majority of the shipment could be saved.

Your investment portfolio may benefit from that same logic.

Diversification is an investment principle designed to manage risk. However, diversification does not guarantee against a loss. The key to diversification is to identify investments that may perform differently under various market conditions.

On one level, a diversified portfolio should be diversified *between* asset classes, such as stocks, bonds, and cash alternatives. On another level, a diversified portfolio also should be diversified within asset classes, such as a diverse basket of stocks.

A Diversified Approach



For example, let's say a stock portfolio included a computer company, a software developer, and an internet service provider. Although the portfolio has spread its risk among three companies, it may not be considered well diversified, as all the firms are connected to the technology industry. A portfolio that includes a computer company, a drug manufacturer, and an oil service firm, however, may be considered more diversified.

Similarly, a bond portfolio that invests exclusively in long-term U.S. Treasuries may have limited diversification. A bond fund that invests in short-term and long-term U.S. Treasuries, plus a variety of corporate bonds, may offer more diversification.

Mutual Funds and ETFs

The concept of diversification is one reason why mutual funds and Exchange Traded Funds (ETFs) are so popular among investors. Mutual funds accumulate a pool of money that is invested to pursue the objectives stated in the fund's prospectus. The fund may have a narrow objective, such as the auto sector, or it may have a broader objective, such as large-cap stocks. ETFs also can have a narrow or broader investment objective. Keep in mind, though, the more narrow an investment objective, the more limited the diversification. Furthermore, a narrow investment objective may result in more volatility and additional risks associated with a particular industry or sector.

The concept of diversification is critical to understand when you are evaluating a portfolio. If you want more information on diversification or have questions about how your money is invested, please call us to review your situation.

Mutual funds and exchange-traded funds are sold only by prospectus. Please consider the charges, risks, expenses, and investment objectives carefully before investing. A prospectus containing this and other information about the investment company can be obtained from your financial professional. Read it carefully before you invest or send money. Shares, when redeemed, may be worth more or less than their original cost.

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