WEALTH BITES

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JOHNSTON FINANCIAL

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How investment diversification can help you achieve your goals

Benefits of diversification

Diversification has several benefits for you as an investor, but one of the largest is as a strategy to reduce investment risk and to achieve more stable returns over the long term.

Diversification can lower your investment portfolio's risk because different types of investments perform differently depending on the existing market conditions. Diversification lowers your portfolio risk because, no matter what the economy does, some investments are likely to benefit.

For example, when interest rates fall, bond prices generally rise, and shares do less well at this time. If one business or sector fails or performs badly, (for example oil shares plummet or one fund manager fails), you won't lose all your investments. By owning multiple assets that perform differently, you reduce the overall risk of your portfolio, so that no single investment can overly impact your overall returns.

How to diversify

You can spread your portfolio across different asset classes like shares, bonds, fixed interest, property, and cash.

Consider diversifying across industry sectors within asset classes to adapt to changing economic conditions. For example, if you buy shares, you could buy across a range of different sectors such as healthcare, resources, financials, retail etc.

Another type of diversification is by investing with different types of fund managers and product issuers. Having a variety of investments with different levels of risk will also balance out the overall risk of a portfolio.

It's worth taking the time to review your investments and look for opportunities to diversify.

Review your investments

List all your investments and what they're worth. This could include:

- cash in a savings account
- shares
- managed funds
- an investment property
- your home
- your superannuation.

This will highlight which asset classes you're currently invested in and where you could diversify.

Identify gaps and research other asset classes

If most of your money is in one or two asset classes, research other asset classes. For example, if you own a house, an investment property won't help you diversify. To diversify, you could invest in different asset classes such as shares or bonds.

You can achieve a balanced portfolio with the right mix of investments, even with a modest amount to invest.

A simple way to diversify is to invest through a managed fund, managed account, exchange traded fund (ETF) or listed investment company (LIC). Managed funds and managed accounts can help you invest across a range of asset classes and/or fund managers. ETFs and LICs can also provide a low cost way to invest in an asset class or diversify within an asset class.

Contact us today to find out more about how you can diversify your investments to help achieve your goals.

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