

Top 10 Ways to Achieve a Truly Diversified Investment Portfolio

Risk came home to roost in the stock market for 2000. What is the best way to reduce risk and increase investment returns consistently? Diversification

1.) Even when you have a small amount of investable assets, you can properly diversify.

There are completely diversified mutual funds with competitive investment returns that you can purchase with as little as \$100.00.

2.) Owning more than one mutual fund doesn't always give you diversification.

When people invest in mutual funds they tend to overlap their investments. They pick the highest yielding mutual funds from the year before and pick two or three of those funds in which to invest. If you look at your investment returns in your mutual funds for the past 10 years and if they are within 3% of each other, look into exactly what investments are in your mutual funds. You'll be surprised that the top 10 holdings in the funds are usually very similar.

3.) When preparing for retirement have your income come from more than one source.

For example, it is better and safer to have your retirement income come from social security, a 401K plan, pension, bonds, stock, and real estate. No matter what happens with the government or the economy you are completely income diversified income can be one of your greatest risk reducing strategies.

4.) How much of your investment money you allocate to each investment class depends on what your investment goals are, and should be decided when creating your long - term investment plan.

The three main investment classes are stocks, bonds, and cash. Depending on your time horizon, investible assets, and risk tolerance, you can come up with an asset allocation plan to meet your investment goals.

5.) Include Real Estate as an asset class.

Real Estate whether it is the house you live in or additional real estate investments should be included in an asset allocation strategy. Real Estate can have a stabilizing effect to your overall investment portfolio.

6.) Include 401K plans and pensions in asset allocation.

People tend to forget to include 401K and pension assets when looking at a truly diversified portfolio. 401K plans have a variety of investment choices and should compliment your investment strategy. Pension plans disclose how they invest your money, including the State Retirement System of New Hampshire. Ask your employer for details.

7.) Take as Much Risk as You Can Handle.

Achieving a diversified portfolio from higher yielding investments. Remember the greater the risk, the greater the reward.

8.) Business Owners and Highly Paid Professionals Tend to Have the Majority of their Assets in One Companies Stock.

This year alone after hitting after hitting a high of \$120.00 per share, Microsoft was down to \$40.00 per share by the end of December. Cisco Systems high for the year was \$70.00 and by December it was \$33.00 AOL went from \$83.00 per share to \$31.00. It isn't just high tech stocks. Consider the employees of "old economy" stalwart Proctor & Gamble, whose company makes stock makes up 93% of its profit sharing retirement plan. Proctor & Gamble's stock went from a high in January of 118 a share to a low of 53. For the business owner their stock is in their company, and is subject to market conditions as well. When you are asset allocated properly even in one of your investments has this kind of swing, withdrawing at the right moment becomes obsolete. Any time is the right time to withdraw money should your assets be in cash, stocks, and bonds.

9.) Diversification lowers a volatility and increases overall investment performance.

Having your investments not all in one basket is the smartest thing one can do to increase investment performance. This year is a great example. This year is a great example. The S & P 500 ended the year negative. The bond market ended the year positive, and if you owned a home in New Hampshire you certainly saw a great amount of appreciation.

10.) Asset Allocation is not a one time exercise.

Asset Allocation is an on going process. When the value of one investment in a portfolio increases at a greater rate than the others, it is important to reallocate your investments, so that your portfolio stays balanced. This is an important way to stay on course with the plan you created to achieve your investment goals.

Have a successful and profitable 2001.

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