

Transcript

What is diversification?

What is diversification? When thinking about investing, it can be tempting to choose a single type of investment that you're most comfortable with, such as a property or perhaps a company that's a household name.

While putting all of your investment eggs into the one basket can work when the investment is performing well, this type of investing can also leave you very exposed if anything were to go wrong.

Instead, if you were to spread out your investment, you're helping to manage those risks. This process is known as diversification.

The key idea behind diversification is that you shouldn't invest all of your money into one type of investment, because it's unlikely a single investment can produce good results all of the time and it could even lose its value.

Let's take shares as an example.

Share prices of different companies go up and down at different times due to changing market conditions.

The more companies you invest in, the more likely it is that some share prices will be going up, to balance any losses when others are going down. So over time, investing in a wide range of companies can smooth out your returns.

The more you diversify, the less impact any one investment or type of investment can have on the return from your overall investment portfolio.

Some ways you can diversify your investment portfolio are:

- invest across different types of assets, not just shares, but also bonds, property, cash, and alternative assets. Since they all perform well and badly in different market conditions, there's a greater chance that some will do well at times when others may not.
- within each asset class, you can spread your investments across companies, industries, countries and regions. If there's a downturn in one industry or region, there will be less impact on your overall portfolio.
- by using a range of investment managers with different investment approaches that are likely to pay off in different market conditions.

In a professionally managed investment, the investment manager may diversify in some or all of these ways.

Diversification won't eliminate risk, but it can help you manage it. Smoothing the ups and downs of your investment portfolio.

For more information on how we can help you diversify your investment portfolio, please contact your financial adviser.

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