The Importance of Diversification

“Don’t put all of your eggs in one basket!” You’ve probably heard that over and over again throughout your life…and when it comes to investing, it is very true. Diversification is the key to successful investing. All successful investors build portfolios that are widely diversified, and you should too!

Diversifying your investments might include purchasing various stocks in many different industries. It may include purchasing bonds, investing in money market accounts, or even in some real property. The key is to invest in several different areas – not just one.

Over time, research has shown that investors who have diversified portfolios usually see more consistent and stable returns on their investments than those who just invest in one thing. By investing in several different markets, you will actually be at less risk also.

For instance, if you have invested all of your money in one stock, and that stock takes a significant plunge, you will most likely find that you have lost all of your money. On the other hand, if you have invested in ten different stocks, and nine are doing well while one plunges, you are still in reasonably good shape.

A good diversification will usually include stocks, bonds, real property, and cash. It may take time to diversify your portfolio. Depending on how much you have to initially invest, you may have to start with one type of investment, and invest in other areas as time goes by.

This is okay, but if you can divide your initial investment funds among various types of investments, you will find that you have a lower risk of losing your money, and over time, you will see better returns.

Experts also suggest that you spread your investment money evenly among your investments. In other words, if you start with $100,000 to invest, invest $25,000 in stocks, $25,000 in real property, $25,000 in bonds, and put $25,000 in an interest bearing savings account.

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