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Diversifying Your Investments

BY De-Ann Smith Posted March 12, 2020

Interested in investing? Do you know where to start? Before investing and looking to diversify your portfolio, you must first know your goals. Whether your goal is retirement or saving for kid's tuition, it's good to have a set financial goal in mind.

What is a Portfolio?

A Portfolio is a pool of different asset classes.

Know the right tools! See the 4 types of Asset Classes below:

Stocks

Stocks offer higher returns and the greatest potential for capital appreciation. What's capital appreciation? This means there's a higher chance for growth. With higher returns comes higher risks, so you should know your risk tolerance level before going 100% in stocks!

Bonds

Bonds provide a steady stream of income. Interest payments are made on a predetermined schedule and the principal amount you invested is paid at maturity. Due to the predictability of cash flows, bonds are considered less risky.

Cash

Cash provides liquidity. Liquidity means how quickly you can get your hands on cash, to get your money where you need it. Cash can be used for savings and acts as an emergency fund. It is recommended to hold at lest 3-6 months salary in a regular savings bank account. Unfortunately, cash offers very little return and therefore is the least risky asset class.

Real Estate

Real estate acts as an inflation hedge which means that the value of your property tends to move with inflation. Your property value usually increases over time. Historically speaking, real estate has offered healthy returns.

What does it mean to Diversify your Investment and how do I do this?

Diversifying your investment means that your portfolio will include all the asset classes listed above. One of the most effective ways to diversify your investments is through a Mutual Fund. Why? A mutual fund is already diversified. It pulls funds from a pool of all asset classes.

Call us to find out more about investment options.