



Why is investment diversification important?

Asset allocation is simply the decision of what sort of assets your funds will be invested in. One of the primary tools of asset allocation is diversification, which is the most common and effective form of risk management. A diversified portfolio has lower risk and generally quite good returns compared to a portfolio comprising entirely one type of asset.

If you put some money into international shares, some into domestic shares, some into bonds, some into mortgages, some into property and a bit into cash, by adjusting the actual mix you can achieve a portfolio with superior risk and return characteristics to a single sector portfolio.

Why is asset allocation important?

Asset allocation is important because in practice virtually everyone fails at picking market highs and lows many fail at security selection. From a broad strategic view, each asset class has its pros and cons. Shares shine when inflation is low but barely keep up in times of high inflation, property does well in times of high inflation but doesn't do much the rest of the time, bonds provide a good income yield but no inflationary protection at all, though they are somewhat more stable, and cash isn't spectacular from an investment point of view but still has a role as a depository for liquid funds.

Portfolio construction is a very interesting science, as a very small addition of other asset classes such as shares and property can significantly boost the performance of a

conservative portfolio without substantially increasing the risk.

If market timing is almost impossible, and if you haven't established great skills in being able to select investments that will provide higher performance than the general market, then asset diversification is the only real option available to you to mitigate risk.

In order to control your own destiny a good strategy is to include as broad a spread of asset types as possible in your portfolio and alter your balance of growth assets to defensive assets according to your tolerance for risk.

The more shares and property in the portfolio, the better it is likely to do over the long term, but the more volatile it will be.

Talk to us today about completing our risk profiling exercise and ensure your investments and superannuation are well diversified and invested using an asset allocation with which you are comfortable.

Talk to **Shaun Thatcher** today to find out whether this strategy is right for you:


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