**The Meaning of Diversification**

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Diversification is a word that you will hear in investment circles, particularly when investing in the share market, but what exactly does it mean?

To put it in plain language, Diversification is when you divide all of your money between different asset classes and companies. Your total portfolio may be x amount of dollars; an astute investor will invest a certain amount in power companies, a certain amount in banks, a certain amount in insurance companies, and so on.

We often hear of horror stories whenever a company folds and the one that crops up is that investors lost their entire savings in the one company. Big mistake!

That is leaving all of your eggs in the one basket because you do not know what kind of misfortune will hit any particular company.

Government regulations and the economic cycle are out of the control of the company.

Then there are trends which will have some influence over the bottom line.

There is no guarantee that whatever occurred in the past will repeat itself in the future.

Investment platforms such as Sharesies, Hatch, and Kernel Wealth in New Zealand and Robin Hood in the US enable the ordinary man and woman in the street to invest with a minimum of amount of money. This provides an excellent education tool for people who are willing to increase their financial literacy by taking part in the share market.

There is another method of diversification and that is by investing in managed funds or as they are described in the US, Mutual Funds. This is where your money is combined with that of other investors. It is a case of safety in numbers.

Managed Funds provide investors with three options, Growth Funds, Balanced Funds, and Conservative Funds.

Growth Funds are higher risk, higher growth stocks aimed at long term investors. That is investors who are investing for 10 years or more. The reason why they are more suitable for long term investors is because they have more time to recover from a market meltdown, which is more liable to happen with growth funds. The young ones are more suited to Growth Funds because they have more time to recover from a share market crash.

Conservative Funds are safer with investors unlikely to see the kind of falls occurring in the growth funds but the flip side is that an investment in conservative funds will not grow as fast.

Financial advisors in New Zealand have often stated that young people should invest their retirement savings in growth funds to maximise returns.

Balanced Funds are a combination of Growth and Conservative Funds. They basically give you the best of both worlds.

Diversification does not mean that you should choose an online investment platform such as Sharesies or Robinhood and invest your whole life savings there. The reason is because there have been instances in the US when these type of online platforms have folded.

Some readers may say, “I know/read about an investor who put all of their money in one company and made a killing.”

My answer to that is, “Greed gets the better of people such as this in the end,”

What is likely to happen is that they will try the same thing again and again and give all of their previous gains back plus a whole lot more.

When you hear stories of so and so making a killing, what you do not hear about are those who tried the same thing and lost all of their money.

Be sensible with your money and you will reap a harvest in the end.

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