

Diversification



LESSON 1

Diversification

Ever heard the old saying “Don’t put all your eggs in one basket”? That’s the idea behind diversification, which is really just another way of saying you should be putting your money in different types of investments to help reduce risk.



Mid
Twenties



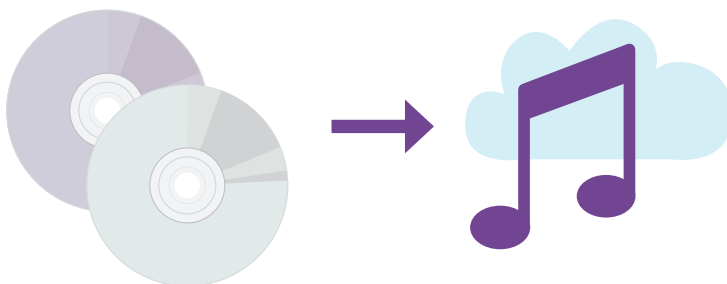
Late
Thirties

Investment Choices, Part A

Hi! Nikki here! I'm 25 years old and already dreaming of the future: retiring to a beach house! I'm relieved that I have a **401(k) account** at work to help me save for the ultimate long-term goal—retirement. I've been learning more about the stock market, and I think I'm ready to do more investing. I went to Grandma and Grandpa's for breakfast this morning to talk it over.



I asked if I should invest my money in Batt stock. After all, our sales have been growing, and the share price of my company's stock keeps increasing! But Grandpa pointed out that just because the company is doing well now, that may not be true in the future, so it would be a bad idea to invest *everything* in Batt. What if the company suddenly loses a lot of money? The stock would go down, and I would probably lose lots of money too! He gave me a great example to explain: There were once companies that had stores that sold compact discs (CDs). Their stocks were very popular. Unfortunately, music streaming services made CDs seem out of date, and investors in those companies lost a lot of money. Grandma chimed in to say that I'd be smart to *diversify* (buy a variety of stocks) so that if one stock's price drops, it won't seriously damage my finances. But how can I afford to buy a whole bunch of stocks? Grandma reminded me that I invest in mutual funds in my 401(k) plan. Because each fund owns many stocks, it gives me built-in **diversification**. It's kind of like buying a premixed salad!



WHAT'S THE Big Idea?

Diversifying your investments by owning different types of companies can help reduce the risk of your investments losing value when economic or political events hurt a particular industry or company.