

Diversification

Investment Choices, Part B

After doing more reading on diversification, I feel like I should talk to someone my age about where to start! Last night, I called my sister April for more advice. She's a doctor now, and although she's older than me, we have similar financial time horizons. Plus, she's really smart and has been investing for several years! She loves to talk about money matters.

April said that since I'm 25 and have many years to deal with the ups and downs of the stock market, it was okay to invest in stocks for my long-term goals.



- ENTERTAINMENT
- MANUFACTURING
- MEDICAL

She wouldn't let me off the phone without reminding me of one more thing: If you use a mutual fund as part of your diversification strategy, make sure to research the mutual fund to understand the different types of stocks it holds. The last thing you want is to have most of your money invested in one type of company or industry. For example, if you only invest in companies that make candy and they lose a lot of money because bad weather wipes out the sugarcane crop, then you will likely lose a lot of money, too, when their stock plummets. However, if your investments are spread over different types of industries and companies, such as technology companies, health care companies, manufacturing companies, etc., then your investment will be diversified, and your losses will likely be less because the fund spreads your money across different types of stock. Sheesh! This was getting super complex. I decided to take notes on my laptop while April explained that it's important to have a mix of stocks (see next page):



LESSON 2

Diversification

When it's time to invest your hard-earned money and help it grow for the future, you don't want to make your financial future dependent on a single investment.



Mid
Twenties



Late
Thirties

DIVERSIFICATION MIX

STOCKS FROM DIFFERENT INDUSTRY SECTORS



INDUSTRIES

Sometimes events happen that help or hurt almost all the companies in a specific industry. For example, if the price of oil declines, many stocks in the oil industry could suffer.

INTERNATIONAL STOCKS AND DOMESTIC STOCKS



INTERNATIONAL AND DOMESTIC

Consider a mix of companies based in the U.S. and other countries.

STOCKS OF DIFFERENT-SIZED COMPANIES



DIFFERENT-SIZED COMPANIES

It's good to have a mix of funds with the stocks of small, medium-sized, and large companies.

Wow, thanks for the info, April. Looks like I have a lot more research to do!



WHAT'S THE Big Idea?

Mutual funds offer some built-in diversification because they have more than one stock in them; however, there are many different types of mutual funds, and it's important to understand what types of investments they hold.