



COMMON QUESTIONS ABOUT **DIVERSIFYING YOUR INVESTMENT PORTFOLIO**



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INTRODUCTION

There are many benefits to investing. Even as our world has changed so much over the past couple of years, the idea of wanting to improve our finances and end up living comfortably during retirement has not changed. Investing has evolved, and so have the challenges. Being able to hold onto gains and continue to grow our nest eggs has meant that traditional investments may need to be diversified in order to outpace the volatility in the markets.

Investment portfolio diversification is also a great opportunity to review both your income needs and future planning goals by diversifying with different assets such as precious metals for example.

By reviewing the historical performance of the return on investment of your current assets, you can estimate which asset categories will help you hit your financial targets by diversifying your portfolio with additional or different assets.

I hope that this eBook will help you get a better understanding of the importance of diversification.

Best,
Tracy McCary



WHAT IS INVESTMENT PORTFOLIO DIVERSIFICATION?

Portfolio diversification is a risk management strategy that helps even out investment returns by investing in various types of assets. Investment portfolio diversification benefits you by potentially decreasing investment volatility and increasing investment return at the same time. It's important to note that all investing involves risk, including the potential loss of principal. While there's no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio, it is one of the most powerful ways to manage risk.

Most investment experts recommend diversifying your investment portfolio to reduce the risk of a total loss. But what is investment portfolio diversification, and how do you know if your mix of investments is right for you?

Why should I invest in different asset classes?

When your money is spread out across many different types of investments such as stocks, bonds, real estate, and commodities (among other types), you reduce your exposure to any single investment type or category—and therefore reduce your investment risk. When some investments perform well, others might not; this allows for balance in investment performance by reducing investment volatility.



How does investment portfolio diversification work?

To truly benefit from investment portfolio diversification, you need to include a number of different investment types and categories in your investment plan. Since returns can vary over time, outcomes can deviate greatly from year to year.

Investment portfolio diversification does not guarantee positive investment performance. Instead, it helps to safeguard your investment strategy by smoothing out the peaks and valleys—and hopefully ensuring an overall better return. You may also benefit from having different types of investments in your investment portfolio such as actively managed funds versus index funds or traditional IRAs versus Roth IRAs. The more investment types and categories you include, the greater the potential diversification benefits.

What does a diversified portfolio look like?

There are a number of different ways you can approach investment portfolio diversification. For example, some people choose to invest a certain percentage of their money into stocks and bonds, another percentage into real estate, cryptocurrencies, or precious metals.

The reality is that there isn't one right way to allocate your investment assets because everybody has different investment needs and goals. What's important is finding a strategy that makes sense for you, works within your overall investment plan and risk tolerance, and allows you to sleep at night knowing your investment portfolio is diversified and balanced.



WHY DIVERSIFY YOUR PORTFOLIO?

Your portfolio will most likely change throughout your investing career. As you get older, your investing goals may change. If you start a family, your objective may be to plan for your children's college tuition. Later, you may focus more on retirement and estate planning.



Market Volatility

Another reason to diversify your investment portfolio is due to market volatility. A volatile market can be challenging for investors, but it also presents opportunities to diversify. When markets are volatile, it's easy to make emotional decisions that may result in a loss due to selling parts of your portfolio out of fear or making riskier investments in order to make greater returns.

If you're investing for retirement or other long-term goals, then having a diverse portfolio can help you weather the storm if parts of your investment portfolio have short-term losses. It's important to invest in more than one asset class during these times, so your portfolio is not too heavily weighted on any one type of investment. This can help you preserve and maintain your wealth, and provide a strong foundation for the future.





HOW TO STAY FOCUSED ON YOUR GOALS

It can feel like a huge relief when you know your investment portfolio is safely diversified. However, this should not mean that you put your investments on the back burner or forget about how or where you've invested your money. You still need to review your portfolio and explore investment options at least once a year. It's a good idea to always be informed about market trends to optimize where to invest.

If you stay focused on your investment goals, you may also discover different assets and tools that can help you to achieve your investment goals.

Here are some tips to consider for staying focused on your investment goals:

Review both investment options and allocation percentages

Investment options within investment categories help determine how you use investment tools to reach investment goals. For example, diversification can be achieved by choosing investment tools that are concentrated in certain areas or regions of the investment market because it may make little sense for an investor with investment goals related to growth investing to purchase something like currency or commodity futures.



Diversify across asset classes

Not all investments are made equally even if they belong to the same investment category. Different types of stocks have different risks associated with them, as do bonds, currencies (including cryptocurrencies), and precious metals. Diversifying with different assets as an investment strategy can help you stay focused on your financial goals because it reduces the chance that unforeseen circumstances will derail your portfolio completely. Even though it does not mean you will never experience investment loss, it does mean that overall, your investment portfolio should rise in value over time.

Retirement-driven investment goal

This investment goal focuses on providing enough investment income during retirement. This investment philosophy is driven by the time horizon of the investor as well as their savings timeline. With this specific investment goal in mind, it can encourage some investors to increase the amount added to diversified investments over time.

The idea is to reduce risk by spreading your money among many different investments so you are not putting all of your eggs in one basket. If the stock market crashes or if there is some other large-scale financial crisis, you will be able to weather a storm more easily than someone who only invests their money into stocks alone.



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CAN PRECIOUS METALS BE USED TO DIVERSIFY MY PORTFOLIO?

Precious metals have long been viewed as an effective way to diversify investment portfolios. Gold, for example, can provide stability during periods of high inflation, which often causes other investments to lose their value quickly. Investing in precious metals is a good way to diversify an investment portfolio because precious metals have always been seen as a hedge against inflation or economic downturns.



“Investing in precious metals is just one way to diversify your investment portfolio so you’re less vulnerable to fluctuations within the global economy”

Many people think that diversifying their investment portfolio means just buying stocks and bonds, but there are other investment tools like gold, silver, and platinum which can help you diversify your investment portfolio. Precious metals can be a good hedge against inflation because they tend to go up when the economy goes down. Additionally, some people invest in precious metals as a safe haven for their money when they fear an economic downturn or crisis may be coming.

You need more than just stocks and bonds if you want your investment portfolio to be well diversified. Just like investment portfolios are made up of different types of investment categories, precious metals can also be broken down into smaller units that can be part of an overall portfolio.

The precious metal market is not without its risks, however, and investors must be aware of some potential pitfalls before they invest in precious metals for the first time. One risk that’s worth mentioning is the fact that precious metals are not insured by any government agency and so losses cannot be recovered if your investment were to lose value.



HOW MUCH DOES IT COST TO DIVERSIFY MY PORTFOLIO?

It doesn't cost more to diversify your investments. If you hire someone to manage your portfolio, the cost of diversifying an investment portfolio is the time and effort it takes for a financial advisor to create a customized investment plan and implement it.



It takes time and research, but the basics of diversification are the same: owning several individual stocks in different industries, in addition to having a small percentage of higher-risk investments in the stock market and a variety of mutual funds with different types of holdings, coupled with other assets such as precious metals.

One strategy that people use to lower costs of diversifying their portfolios is through dollar cost averaging (DCA). DCA means that you invest small amounts regularly over time so that you buy more assets when the prices are low (which can help increase your assets overall). This approach is generally less risky if the amount of money invested every month is equal to or higher than what you can afford to lose.

When it comes to asset allocation, the real cost may be in not diversifying your money with a mix of investments and just relying on consolidating your money into one aggressive portfolio. This has proven to not be the best investment strategy – especially when markets don't perform the way you might have expected.





SHOULD I HIRE SOMEONE TO MANAGE MY PORTFOLIO?

If you plan to invest your money, one of the best ways to make sure you are investing according to your risk tolerance is to hire someone to manage it for you. This means hiring a professional financial advisor or financial planner. When looking for someone to manage and grow your wealth, it's important to find a professional who has experience with investing, planning, and protecting your money according to risk tolerance.



What types of services do financial planners provide?

Financial planners perform a variety of functions that may include: assessing clients' needs; providing investment advice; exploring tax strategies; assisting with retirement planning; and making referrals to accountants, attorneys, insurance agents, and other professionals.

The costs of hiring a financial planner vary widely. Some charge an hourly fee for planning, while others may charge assets under management (AUM) fees, transaction charges, or commissions.

If you are investing your money in any type of asset, hiring someone to manage your portfolio for you is one of the most effective ways of making sure that you are investing according to your comfort level. In addition, financial advisors have access to many different types of investments, and generally have knowledge and experience in the markets, whereas new investors do not.

This person should have experience in estate planning as well as managing tax risks. Having a money manager that utilizes different assets and investment classes can help you plan for growth based on your goals and what you want to accomplish.

The takeaway here is if you hire someone who has experience investing in different levels of risks, combined with knowledge of diverse investment strategies, a professional financial advisor can provide financial advice and investment recommendations that match your needs.