

AN INVESTOR'S BEST FRIENDS

Meet diversification, patience and consistency.

by Jason A. Zamora

Any investor would do well to call on three friends during the course of his or her financial life: diversification, patience and consistency. Regardless of how the markets perform, they should be a part of your investment philosophy.

Diversification. The saying “don’t put all your eggs in one basket” has real value when it comes to investing. In a bear market, certain asset classes may perform better than others. Ditto for a bull market. If your assets are mostly held in one kind of investment (say, mostly in mutual funds, or mostly in CDs or money market accounts), you could be hit hard by stock market losses, or alternately lose out on potential gains that other kinds of investments may be experiencing. So there is an opportunity cost as well as risk.

This is why asset allocation strategies are used in portfolio management. A financial advisor can ask you about your goals and tolerance for risk and assign percentages of your assets to different classes of investments. This diversification is designed to suit your preferred investment style and your objectives.

Patience. Impatient investors obsess on the day-to-day doings of the stock market. Have you ever heard of “stock picking” or “market timing”? How about “day trading”? These are all attempts to exploit short-term fluctuations in value. These investing methods might seem fun and exciting if you like to micromanage, but they will add stress and anxiety to your life, and they are a poor alternative to a long-range investment strategy built around your life goals.

Consistency. Most people invest a little at a time, within their budget, and with regularity. They invest \$50 or \$100 or more per month in their 401(k) and similar investments through payroll deduction or automatic withdrawal. In essence, they are investing on “autopilot” to help themselves build wealth for retirement and for long-range goals. Investing regularly (and earlier in life) helps you to take advantage of the power of compounding as well.

Are diversification, patience and consistency part of your investing approach? Make sure they are. If you don’t have a long-range investment strategy, talk to a qualified financial advisor today.

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