Diversification: Composing Your Financial Symphony

Arrange a masterpiece consistent with your personal goals

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Any classical music composer will tell you that creating a symphony requires a delicate balance of sounds, melodies, and harmonies. Each instrument creates unique sounds and vibrations which, when heard alone, may not be particularly compelling. However, when the orchestra plays in unison, the result can be a masterful composition. Hence, the true art of creating a masterpiece – arranging melodies and blending sounds.

In this respect, composers and investors share some similarities. Successful investing typically combines a number of different investments in order to create a portfolio that is "in tune" with the investor's goals and objectives. It is no coincidence that such a technique is the foundation for one of the most basic financial investment principles – diversification.

Diversification is the process of attempting to decrease financial risk by investing monies in different asset categories. To effectively diversify, many financial professionals recommend investing in at least three different asset classes. The major asset categories include stocks, bonds and cash (saving and checking accounts, certificates of deposit, money market accounts, and Treasury securities). Mutual funds often represent a combination of asset categories, but may consist of just one asset category, such as a bond fund.

Overall, diversification may help reduce investment risk while achieving potentially higher returns. This is because different categories of investments react differently to changes in the economy. For example, while stock values might be plummeting, bond values may be rising or remaining level. With a well-diversified portfolio, you can ultimately come to own many asset categories, thus potentially reducing the impact market volatility may have on your total investments.

Creating Your Own Ensemble

Before deciding where and in what to invest, you should review your personal financial goals and ask yourself the following questions:

- What are the goals for my money?
- Where am I on the path to achieving my goals?
- How can I keep inflation from eroding my purchasing power?
- How much risk am I willing to take with my money?
- Will I be comfortable holding investments with daily price fluctuations?
- Do I have the need and/or the ability to take this risk?

Many investors use diversification as the foundation of their portfolios. However, it is essential to realize that diversification does not *eliminate* risk or *guarantee* a profitable investment return.

To reduce risk, your financial portfolio should reflect your own personal financial goals and investment style. Among other factors, your age, income, expenses, family responsibilities, temperament (are you a risk-taker or do you prefer to play it safe?), need and ability to take risk, can influence how you should build your portfolio.

Arranging A Masterpiece

One of the biggest challenges facing the average investor is deciding how to allocate personal savings or retirement assets. Naturally, most individuals hope to create an investment portfolio that is consistent with their personal objectives and risk tolerance level. However, the lure of potentially high rates of return can easily skew an investor's objectivity, resulting in unrealistic expectations and unneccessary exposure to risk. In good times, an investor may be less apt to rebalance their portfolio. Thus, it is important to adhere to a diversified investment strategy that conforms to your short and long range goals. With a little bit of patience, your future may bring music to your ears.

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Bill Bender is a principal of Mason Road Wealth Advisors representing the well-respected Dimensional Funds. SLMMS has a special partnership with MRWA, which offers SLMMS members a discounted advisory fee and access to these highly sought funds with a lower minimum investment than commonly offered. For more information, call Bill Bender or Lori Plescia, Director of Retirement Plan Services at (314) 576-1350.