

LEARN ABOUT PORTFOLIO DIVERSIFICATION



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Key Takeaways

- Portfolio diversification is investing in multiple assets and across different industries.
- It's important to spread investments in order to spread risk and avoid downturns in specific areas.
- Investors can allocate their assets in different categories, the more spread, the better.

What is portfolio diversification?

The saying goes, "Don't put all your eggs in one basket" and certainly don't put all your money in one investment! A sound investment strategy incorporates diversification across asset classes. Essentially, this means spreading your investments across a range of different assets.

This doesn't only mean that you're investing stocks in different industries, this could also mean investing in a wide variety of asset classes, such as stocks, bonds, GICs, or alternative investments. For example, you have investments in stocks and bonds but also choose to spread your money and invest in real estate, a variety of small businesses, and investments in different countries.

Why is diversifying your portfolio important?

Diversifying is crucial in order to create an investment portfolio with the highest possible chance for big returns.

Reducing risks and providing peace of mind

By making sure you invest in different industries, asset classes, or geographic regions, you reduce your exposure to any one particular type of investment. This can help protect you from significant losses in case a specific type of investment underperforms. This can help you feel more confident in your investments and provide a greater sense of security.

Maximizing your returns

Diversification can help increase your returns over the long run. By investing across multiple asset classes and industries, you increase your chances of capturing gains when different sectors or asset classes perform well. This means you won't get FOMO when you see a particular type of investment gain momentum.

Reducing potential biases

Diversification can help reduce the behavioral biases that can lead us to make poor investment decisions. What this means is that you won't get attached to a particular investment if you've invested in a multitude of asset classes and sectors. For example, you experienced huge returns when you invested in a certain cryptocurrency and now all you can think about is finding and investing in the next big crypto coin. This mindset can be eliminated through diversifying your portfolio.

Final Thoughts

Ultimately, the key to successful investing is to create a well-diversified portfolio that suits your risk appetite and long-term financial goals.

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