

# Tips to Diversify Your Portfolio

Diversification is crucial for long-term investment success.

Proper diversification, that is.

Today, how to better diversify your investment portfolio.

## **A Quick Refresher on Diversification**

We covered diversification a while back, so just a quick reminder on this important concept.

[What is portfolio diversification?](#)

[A little deeper look into portfolio diversification.](#)

[Portfolio diversification in action.](#)

[Portfolio diversification and asset correlations.](#)

[Diversify with emerging markets.](#)

[Mutual fund holdings and diversification.](#)

Efficient and effective portfolio diversification may be the main determinant of long-term investing success or failure. Please make certain you understand this crucial subject.

Investopedia provides ["5 Tips For Diversifying Your Portfolio"](#). We have covered these tips before, but it is a nice summary.

## **1. Spread the Wealth**

Reduce your portfolio's [non-systematic risk](#) (i.e., the diversifiable risk) by spreading out your capital. Diversify within and between individual asset classes (e.g., equities, fixed income) and asset sub-classes (e.g., natural resource

equities, junk bonds). Diversify across geographic regions (e.g., emerging, developed) and time (e.g., 5, 30 year bonds).

There are diminishing returns to diversifying. And the benefits of diversification are more a function of the correlation between the assets selected, not simply the number of investments you make.

## **2. Consider Index or Bond Funds**

Cost effective. The funds are often well-diversified within the tracked index. And it is easy to create a diversified total portfolio with very few investments (though each fund will have a large number of holdings).

For example, consider the iShares S&P 500 index exchange traded fund ([IVV](#)). You buy one single investment product. Yet you receive the benefit of 500 companies representing a wide variety of the U.S. equity market. All for a minimal annual cost of 0.07%.

## **3. Keep Building**

Fully agree that dollar cost averaging can [aid in effective diversification](#).

Dollar cost averaging promotes [investing discipline](#), a [consistent approach](#), and [portfolio quality](#). It is an excellent investing [technique for small investors](#).

## **4. Know When to Get Out**

I like a [general buy and hold](#) approach when investing in mutual and exchange traded funds. I do not think buy and hold forever works with [non-diversified investments](#), like individual stocks or bonds.

One has to be aware of [potential problems](#), but I think the [advantages of buy and hold](#) for funds win out for investors.

I like buy and hold. But that does not necessarily mean buy and hold (forever, locked away in a drawer). Buy and hold, [but review](#). As necessary, [rebalance your actual asset allocation](#) back in line with your [target allocation](#). There are a few [strategies available to rebalance](#).

## 5. Keep a Watchful Eye on Commissions

Yes, watch [commissions on mutual funds](#). I recommend seldom (usually never) buying into any fund that charges a commission. There are too many good no-load funds out there.

Besides commission, keep an eye on all your [investment related expenses](#).

Brokerage fees when buying or selling mutual funds, exchange traded funds, stocks, bonds, etc.

Annual expenses charged to an investment product. These can significantly [impact investment returns](#) for both mutual funds and exchange traded funds. They can also materially [differ between investment products](#) and offerings. So do proper due diligence prior to investing in any one product or fund.

Why? I cannot tell you which fund or asset class will outperform next year. But I can tell you with some confidence that [lower costs will result in stronger performance](#) over time.