

A decorative vertical bar on the left side of the slide, consisting of several thin, parallel vertical lines in shades of light blue and grey. To the right of these lines are four dark blue circles of varying sizes, arranged in a vertical line that tapers towards the bottom.

LESSON 15

Diversification

KEY TERMS

- Bear Market
- Blue Chip Stock
- Bonds
- Bull Market
- Defensive Stock
- Diversification
- Growth Stock
- Investment Portfolio
- Large-Cap Stock
- Personal Investing Plan
- Small-Cap Stock



TO DIVERSIFY YOUR INVESTMENTS

1. Assess your own risk tolerance and financial awareness.
2. **Research** – learn about investment opportunities of which you can take advantage.
3. Figure out how long you have to invest before you need your money.
4. **Practice** – use financial modeling software to buy stocks & bonds and watch what happens (before it's your own money).



WHAT IS AN INVESTMENT PORTFOLIO?

○ *Investment Portfolio*

- The collection of investments you personally hold, including
 - Stocks
 - Bonds
 - Money Market Accounts
 - Savings Accounts
- Want to have a *diversified* portfolio



WHAT IS DIVERSIFICATION?

○ *Diversification*

- Owning a collection of investments of different types (stocks, bonds, money market funds) in order to spread risk and have a safer investment overall
- By maintaining a variety of investments, you are less vulnerable to the impact of a poor performing investment on your overall portfolio
 - Does not make investing risk-free, but will help you weather challenging financial/investment times.



WHAT ARE THE BENEFITS OF DIVERSIFICATION?

- There is always risk in investing
- Goal is to minimize risk



○ *Bear Market*

- Term describing a situation where stocks are either:
 - 1) not gaining in value, or (more commonly)
 - 2) losing value
- During a bear market, bonds and interest-bearing investments are normally more attractive to investors because they generally have less risk involved (but, as a result, less return on investment)
- Bear market is good time to buy stocks “on sale” (price is lower)
 - Easier to do if portfolio is diversified



○ *Bull Market*

- Term describing a time where stock prices are generally going up
- During bull market, everyone seems to be snapping up stocks, and stock prices seem to be roaring upward
- If portfolio is diversified, you may be able to take advantage of this situation without risking all of your investments
 - Shift some of your portfolio into stocks instead of bonds
 - Shift some of your investment in stocks into different stocks



WHAT ARE THE DIFFERENT AVENUES OF DIVERSIFICATION?

○ Types of stocks in portfolio

• Large cap stocks

- Have a market capitalization value (total value of all shares of stock issued by the company multiplied by the current share price) of over \$10 billion
- Normally well-established, good-performing companies

• Small cap stocks

- Have a market capitalization of between \$300 million and \$2 billion
- May be companies with a lot of growth potential
 - If company becomes highly successful, stock price can take off



○ Mutual Funds with varying investment objectives

Examples:

- Large Cap Fund: invest in large cap stocks
- **Growth Fund**: invest in stocks that the funds managers think will have a great increase in price
- **Income Fund**: invest in stocks that pay dividends to shareholders
- Others
 - Aggressive Growth Funds
 - International Funds
 - Utilities Funds
 - China Regional Funds
 - Etc.



SHOULD I USE A FINANCIAL PLANNER?

○ *Financial Planner*

- Investment advisor helpful in letting you define & reach your financial goal
- May work for a specific group of investments
 - Will probably try to get you to invest in those funds
- How much do financial planners cost?
 - Brokers trying to get you to invest in their funds generally don't charge you a fee
 - If you have someone planning your investments for you, they may charge a percentage of what you invest, or an hourly fee



BROKERS VS. FINANCIAL ADVISORS

- Brokers buy and sell financial products such as stocks, bonds, mutual funds, and other investment products.
 - Do so on behalf of customers in exchange for a fee or commission.(usually a percentage of the purchase or sale price).
 - Must be registered with the Securities & Exchange Commission (SEC)
 - Can provide advice on which products to invest in based on your risk tolerance and goals, but do not have fiduciary duty to act in your best interest.



BROKERS VS. FINANCIAL ADVISORS

- Financial advisors (or investment advisors) are people or companies that provide advice about securities to clients.
- Help individuals or companies meet short-, medium-, and long-term financial goals by evaluating financial status and developing a program to meet objectives.
 - Receive compensation (fee or commission) for providing advice about different investment products
 - Must be a Certified Financial Planner (CFP)



RESEARCHING INVESTMENTS WITH FINANCIAL PUBLICATIONS

○ Publications

- *Wall Street Journal* (newspaper)
- *Investor's Business Daily* (newspaper)
- *Barron's* (magazine)
- Others

○ Find out what is happening in the world

- May learn of opportunities for investing
 - Up-and-coming industries/companies/technologies
 - Investment strategies
 - Tax strategies for the investor



RESEARCHING INVESTMENTS ONLINE

- Can do same research you could get from newspapers/magazines
 - Normally have to pay to get access to most of the content they publish
 - Other sources may publish for free
- Track current value of investments
 - Stocks
 - Mutual Funds
 - Bonds

