

## *Spreading Your Wealth Around - Using Asset Allocation and Diversification Strategies*

Many investors believe that investment performance depends primarily on picking the “right” investments or getting in and out of the markets at opportune times. It’s easy for you to be swayed by the opinions of the media not to mention all the other information that bombards you every day; there are countless programs on television about “what’s hot” and newspaper and magazine journalists aren’t shy about recommending the stock pick of the day.

What most people don’t understand is that simply buying what’s hot and selling what’s not is not the most effective way to build or manage a portfolio. Research has shown that the COMBINATION of assets and the degree of diversification are responsible for more than 90% of a portfolio’s overall return. In other words, the most effective way to build and manage your portfolio is not to buy or sell securities, but to start off with a mix of various securities and rebalance them periodically to keep them in line with your long- term investment goals.

Using asset allocation as a strategy to build your portfolio means that you have a combination of three asset classes of investments in your portfolio - stocks, bonds and cash - at any one time. The proportion of these asset classes will vary depending on your long term investment goals and you aversion to risk.

Diversification means that you take each of those categories and break them down further into different types of management styles, sizes of companies invested in, and quality of investments.

**Think of this way:** When you go grocery shopping and are planning your food for the week, you don’t want to fill your grocery cart solely with vegetables. You want to have different types of food groups: some fruit, some dairy products, and some bread. You want a choice of foods so that you can benefit from all the tastes, colours, textures and nutrients that those different foods have.

The same applies to investing - by using an asset allocation strategy and diversification while you and your investment advisor are building and managing your portfolio, you’ll be able to get the maximum benefits of the combination of investments.

Source: AGF Funds Inc.