ORIENT ASSET MANAGERS LIMITED
INVESTING IN DREAMS

HOW TO DIVERSIFY YOUR INVESTMENT PORTFOLIO LIKE A PRO

Diversity is one of the most important elements of a well-constructed investment portfolio, as any financial advisor worth their salt will inform you. Diversification is a key aspect of any investment plan and is ultimately a recognition that the future is uncertain and no one knows exactly what is going to happen. Diversification is achieved by distributing the risk across various assets, thus reducing the likelihood of all your investments performing poorly at the same time.

Here is how to achieve a diverse investment portfolio:

Spread the wealth

A single investment might be great, but you should not invest all of your money in a single stock or industry. Upon conducting thorough market research, consider creating your mutual fund by investing in a handful of companies you know, trust and even use in your day-to-day life. When investing, do not limit yourself to your local investment market, think beyond and challenge yourself to go global if the risk allows. This way, you will spread your risk around which can lead to bigger rewards.

Invest in assets with varying levels of risk

The degree of risk associated with each class of investment should be taken into account. The returns on high-risk investments are often above average, but there is also a greater potential that they will perform poorly. However, low-risk investments offer a low rate of return and the smallest potential for capital loss. Giving you the best of both worlds, a well-balanced portfolio with both high-risk and low-risk investments enables you to enjoy excellent returns while reducing total risk.

Use index funds

An index fund is a portfolio of stocks or bonds that seeks to match the risk and return of the market based on the theory that in the long term, the market will outperform any single investment. Index funds are a great way to build a diversified portfolio at a low cost and are said to provide broad market exposure, low operating expenses and low portfolio turnover. Purchasing mutual funds that track broad indexes allows you to buy into a portfolio for almost nothing. This strategy is simpler than attempting to create a portfolio from the beginning and keeping track of the businesses and industries to which you are exposed.

Rebalance regularly

Depending on how the investment does over time, the size of the holdings in your portfolio will alter. Strong-performing holdings will make up a larger portion of your overall portfolio, while the underperformers will see their weight decrease. Rebalance your portfolio periodically, allocating earned capital to other classes following your asset allocation strategy to reduce the risk.

Diversification offers an easy way to smoothen your returns while potentially increasing them as well. You can have a variety of models of how diverse you want your portfolio to be.