Diversification is part of life

Diversification is part of our life. Every day we diversify something, we do this without stopping, without analysing and most importantly, because deep down we know it is the right thing to do. We buy clothes for warm weather, for rain, for snow, for dinner, for going to work and for exercising. How else would we build a proper wardrobe to contend with any situation we encounter?

When we plan vacations, we do not try to copy our home environment, we want a new experience, a break from the norm, because we know this is what we need, to get the (mental) relaxation we desire. We know we need to diversify our experiences in the same way we need to diversify our wardrobe.

At the same time, we are surrounded by diversification, not because it is the most efficient thing to do (wouldn't it be easier, and cheaper, if we all drove the same car and lived in the same home?) but because we demand it. We want to be different, drive different cars, live in different homes, go to different places, eat different foods and love different people. After all, we are individuals.

As individuals, we come together and form a society; we celebrate diversity and understand that our needs, hopes and dreams vary from person to person. We must take the good with the bad and as a nation we grow stronger from it.

In this context, we understand the benefits of diversification. But when we speak of financial diversification the context is lost, yet the two are no different. By diversifying, we make something better, not necessarily the best, just better. Bonds and equities protect you against financial turmoil in the same way as summer and winter clothes protect you against inclement weather. Investments in Europe, Asia and the Americas balance your portfolio in the same way that different foods balance your diet. By combining different financial products from different locations, we create a diversified portfolio with a risk profile that is a combination of all of the products and geographies contained in the portfolio. When one of the products is impacted, as a result of the bail-in/deposit haircut, for example, the rest of the portfolio is unaffected. Naturally, you cannot gain proper diversification by investing in different Cypriot banks or real property, you have to select different assets in different locations; but in a properly constructed portfolio, the good will outweigh the bad over time and your portfolio will grow.

Stocks, Bonds, Returns, Value at Risk, Efficiency Frontiers, Portfolio Optimisations and many other fancy words are just ways in which financial professionals try to find the best diversification for your portfolio. As we go through life, we acquire wealth, some of us more than others, but we all need diversification. We have to make sure that if something bad happens to this, or any other, economy, we do not lose: our job, our savings or the roof over our head. Diversification can help, and you know it. Your financial advisor can help you find the best way to achieve this goal.

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