

MONEY MATTERS: To Divide Is To Conquer

By Charles Flowers

In the real estate business, the mantra is location, location, location. In the investing world, the mantra is diversify, diversify, diversify. Or, to underscore the point another way, it's important to resist putting all your eggs (i.e. money) into one basket (i.e. a

single investment vehicle).

Why? In a word: volatility. There is no way to stop the wide performance swings that are part of investing in capital markets. They are going to happen. For example, over the past six years, we have experienced the best of times and the worst of times

in the US stock market. However, while it can't be stopped, volatility can be tamed. How? In two words: asset allocation.

The chief advantage of asset allocation — or, to put it more colloquially, “mixing it up” in your portfolio — is that it can stabilize and maximize compound returns (not to mention free you from the emotional rollercoaster driven by volatility).

This is a simple example: assume you invest \$1,000 in a particular stock. In the first year after purchase, your stock falls -10 percent, or -\$100, and your stock is now worth \$900. In the second year, your stock gains 10 percent, but on your \$900 that is only a \$90 gain.



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Your average return (calculated by adding the returns over the two periods and dividing by the number of periods) on the stock was zero percent, but the value of your investment is only \$990 — less than its initial

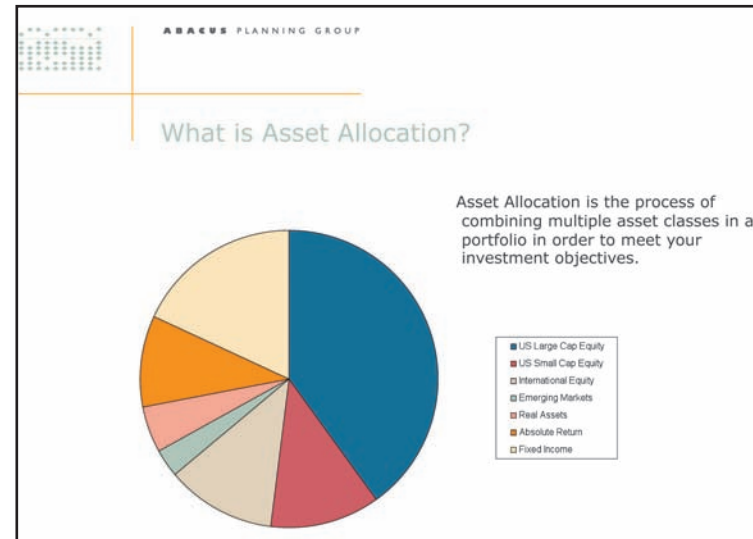
value.

Because periods of loss (like the example above)

is the strongest argument for diversifying across multiple asset classes, markets, borders and investment styles. Some of your investments may be up while some are down and vice versa. That's the idea. No one investment is carrying all the weight (and creating all the impact.) There is a balance of different types working together in different ways to deliver a positive overall performance.

The most powerful portfolios are those that are structured around clear investment strategies and a commitment to strategic diversification. Asset allocation is your greatest investing ally. It is how you realize long-term growth.

It is how you manage risk. It is how you live through volatile periods. It is how you give yourself the gift of financial and personal well-being.



erode value, gains have to work doubly hard, first to restore that lost value and then to grow principal — negatively affecting compound returns over the long haul. That