# Financial Wisdom

## - Wealth Builder -

October 2020

# Put Your Eggs in Many Baskets

When their investment savings plummeted in the 2001 stock market crash, Adam and Sonya were concerned, but not panicked. Retirement was a long way out, so they had plenty of time to recover. The couple decided to try their hand at 'timing the market', (buying and selling stocks based on expected market fluctuations) to recover their losses. "We thought that if we stayed on top things and could chart when the market would go up and down, we could make our money back," says Adam.

Then came 2008 and another financial crisis that wiped out half of their investment assets. "We'd spent a lot of time and energy on an investment strategy that ended up being pointless," says Sonya. "We were devastated by this second hit to our savings. We sold at the wrong time, and we bought at the wrong time. We also limited ourselves to just a couple of specific sectors of the market, which in the end, compounded our risk and made things much worse."

It was an expensive lesson; one they couldn't afford to repeat. Taking a smarter approach, Adam and Sonya started working with a financial advisor to help guide their journey. This new relationship opened their eyes to the time-tested, empirically proven principle of diversification.

Adam and Sonya had put most of their investment eggs in one basket. Twice. It hadn't worked out well. When they finally diversified properly, they were able to hold a wide variety of asset classes to increase their growth potential and mitigate their risk. Because a skilled professional had advised them, they understood that if they experienced a loss in one investment, it wouldn't impact their entire portfolio. And in the event of another loss, they'd retain more capital to make future investments.

If you're considering diversification as an investment strategy, here are some helpful things to know:

**Asset Classes**

Diversification allows you to invest across multiple asset classes and allocate a percentage of your portfolio to each. Asset classes can include a broad mix of equities, bonds, precious metals, commodities, currencies, real estate and their subsets. The key to successful diversification is recognizing that different assets have varying ranges and patterns of volatility.

**Domestic and Global Markets**

Portfolio holdings can also be diversified geographically, allowing you to invest in a broad cross-section of world markets through various investment funds. You also benefit from improved risk management.

**Time-Tested Strategy**

Diversification is a time-tested strategy that usually leads to better long term returns because of lower portfolio volatility. Asset selection is very strategic and performs best when designed and maintained by skilled investment professionals.

Choosing diversification as an investment strategy after their 2008 loss was a wise choice for Adam and Sonya. As the world weathers yet another market crash in 2020, Adam says they're grateful that they made the shift. "While there have been some losses in our portfolio, there are no disasters. Because we're well-diversified, we'll ride this out just fine. We can sleep at night without worrying about our long-term savings, and that's all because we obtained excellent professional advice after making some bad decisions on our own."

**Fictional characters for illustrative purposes only.*

**Got questions about your investments? We can help!**


**Bruno Scanga**, **Financial Advisor**

**Bruno M. Scanga - Quadrus Investment Services Limited**

**Ph: 905.728.6956 - www.brunomscanga.com - bmscanga@hgiandcompany.com**