

Importance of Portfolio Diversification in the Current Turbulent Times

A lot of investors generally concentrate on placing their savings in specific assets or investment classes. For instance, a few investors might focus on gold investment, a few might place their money in stocks or a fixed deposit. However, it is quite risky to place all savings in just a single asset. If due to market conditions, the returns are poor, it might affect the entire wealth creation process. The best way of preventing such losses is to have a diversified investment portfolio. Such a portfolio is created based on the idea that the lower returns from a few investments will be offset by the higher returns from other investments. Due to this, the portfolio's overall risk reduces. Heard the saying, don't put all your eggs in one basket? Yup, Just that!

Considering the current volatile market scenarios, it can be quite a tough call when it comes to investments. Where should one invest? What is the kind of portfolio to be maintained in turbulent times? Many a times, such situations lead to panic selling and you might end up losing more than expected. As an investor, you must remember to focus on the long-term goals and remain diversified in such volatile market conditions. If you already own a well-diversified portfolio, then you must just wait and watch. In case of any concerns, it is advised to discuss the issues with your Financial Advisor before you decide to cash out.

Creating a Diversified Investment Portfolio

There are many ways in which one can create a diversified investment portfolio:

1. Diversifying the portfolio by way of asset allocation

This is the simplest way of diversifying the portfolio, wherein the investment of the individual is spread across various asset classes like debt, equity, bonds, mutual funds, cash, gold as well as real estate in an orderly way.

2. Diversification by understanding the risk appetite

Based on an investor's appetite for risk, the proportion of investment in equity can be high or vice versa.

3. Diversification within asset classes

When an investment is in equity, it is essential to diversify the portfolio within the asset class itself, as it is quite risky to hold stocks which are similar. The diversification could be in equities of different sectors, rather than focusing on just one sector.

4. Investment in equity mutual funds

An investor can also opt for equity mutual funds as they are managed by experts who make sure that the holdings are well-diversified across various sectors.

So, why is diversification so important?

Diversification is one such tool that will help any investor, be it a small investor to a big institutional investor. These days, it is quite simple and convenient to diversify investments due to

the introduction of the digital advisory solutions. Diversification should be considered by investors in order to make sure the capital growth is smooth.

If your portfolio is a well-diversified one, the chances of a single investment or security causing damage to the entire investment will be less. The three main types of asset classes are stocks, cash, and Bonds. Prior to investing in these, you must understand and evaluate your objectives of investment, as this will help you decide the right proportion of investment in various asset classes.

The main benefits of Portfolio Diversification are:

1. Investment Risk is Minimized

When investing your savings, you must remember that the entire saving should not be invested in one financial asset of one organisation. This is important as, in case of a market turmoil, the risk of losing money will be high. In case you invest in multiple stocks of different sectors, in addition to other asset classes, the loss will be offset by the profit made in other asset classes or stocks.

2. High Return on Investment

Investing in various financial assets such as stocks, bonds, mutual funds, commodities, mutual funds, etc., could increase the chance of securing a higher as well as safer return in contrast to placing your investment in just one financial asset.

3. Good Learning Experience

The returns from having a good diversified portfolio might not surpass the returns of a top performing asset, however, they are better than the worst performing asset. In this manner, it gives the investor a safe return as well as a good learning experience during times where there is a market crash. Instead of making a person forgo investing, it encourages them to stay invested for a long time. It teaches an investor that in order to safeguard their investment, their portfolio has to be diversified but not over diversified as well.

Diversification is one such process that helps you learn more about the market and the ways of investing in various financial assets. It helps in minimizing volatility and protects an investor from adverse market scenarios. When you decide to venture into the world of investment, you must remember that the value of stocks, bonds, etc., keep fluctuating in good times as well as bad times. During market volatility, the losses as well as gains can appear to be huge. However, what you must remember is that in such times, the focus has to be on the long term investment strategy. This is the reason behind the success of some of the most successful investors. Such investors do not indulge in panic selling and do not expect high returns in a couple of days.

Diversification, in itself, does not assure the investors of a profit or protection against losses. The winning strategy would be to enter into a diversified investment strategy for a long term post considering the investment goals as well as the risk appetite of the investor. This is one strategy that will ensure your investment is safe irrespective of whether the market is in tough times or is booming.