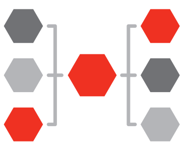
Diversify your portfolio

Don’t put all your eggs in one basket

I read some articles that stock markets will be the best performer of the year. Why not put all my money in it to achieve the highest potential return?



Some investors may argue that if all their money was to be placed into one good investment, they would get the highest profits. However, **even for the smartest investors in the world, it is difficult to predict which investments will deliver the best returns in the future.** In reality, the performance of each investment varies over time. If an investor chose a single investment trying to achieve the best performance, it may result in an unexpected outcome.

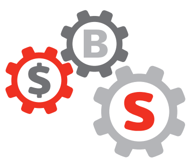
Although I can see my money growing, I don’t feel comfortable with how often I see negative returns in my investments. How can I have a more stable portfolio?

A well-diversified portfolio is your good defense against market swing. If an investment is made in only one investment, the outcome tends to be more volatile and the risk is higher. Instead of focusing in one investment, you can spread your money across a number of investments that are not alike. A diversified portfolio aims to reduce risk by allocating investments among various financial asset classes, currencies and geographies, thus seeking for a more stable and smoother experience.

How does diversification work?

To diversify, the portfolio has to have investments that complement each other and react in different ways to market movements; in financial terms, investments that have “low correlation”. When a portfolio is constituted of investments that are not closely associated, factors that cause losses in one of the investments may not result in a same downturn to the performance of the other investments in the portfolio (and in some cases even produce a positive return), offsetting the adverse effect that the former has.

I have limited amount of money to invest, how can I build a diversified portfolio?



To achieve a truly diversified portfolio, you may have to buy many different individual stocks and bonds, which can be quite costly and difficult to manage. By purchasing equity or bond funds, you can achieve diversification without the need of large amount of money. **Multi-asset funds also aim to help investors achieve stable and repeatable returns under different market conditions by investing in a diverse mix of asset classes and styles.**

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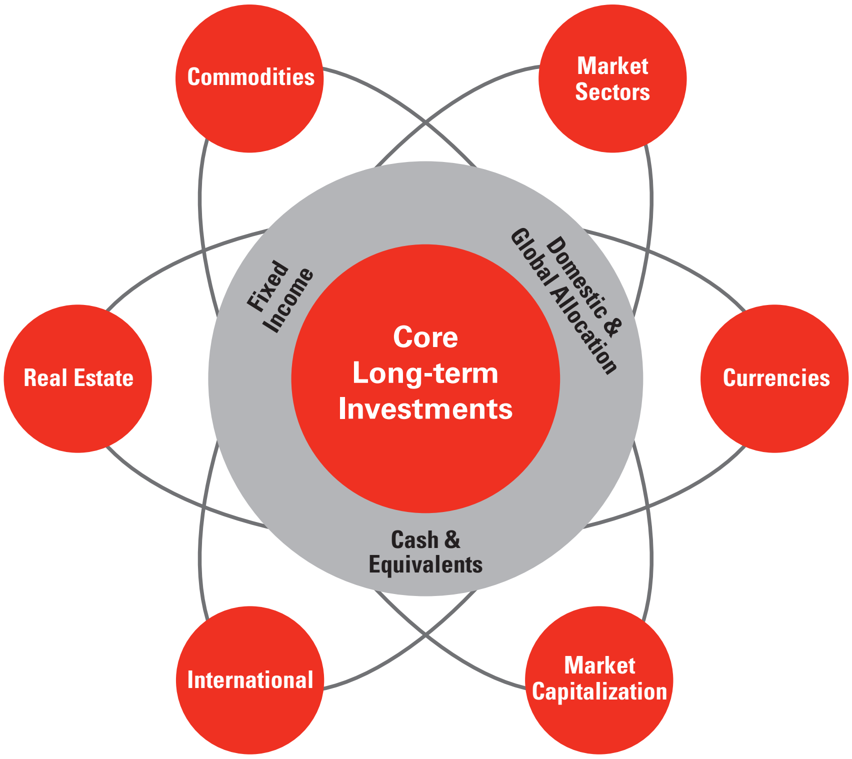
An alternative way to diversify: The core-satellite approach

Core-satellite approach seeks to find an appropriate balance between diversification and maximising potential returns.

A portfolio built under this approach consists of two segments: core and satellites. The Core portfolio is the central portion and should be well diversified across different asset classes, so as to help protect investors during market downturns, while participating in positive markets. It could be a multi-asset fund. Meanwhile, the Satellites give investors the opportunity to pursue market-driven and shorter-term investment ideas, aiming to take advantage of market trends of special investment situations.



Investment involves risk and past performance is not indicative of future performance.

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