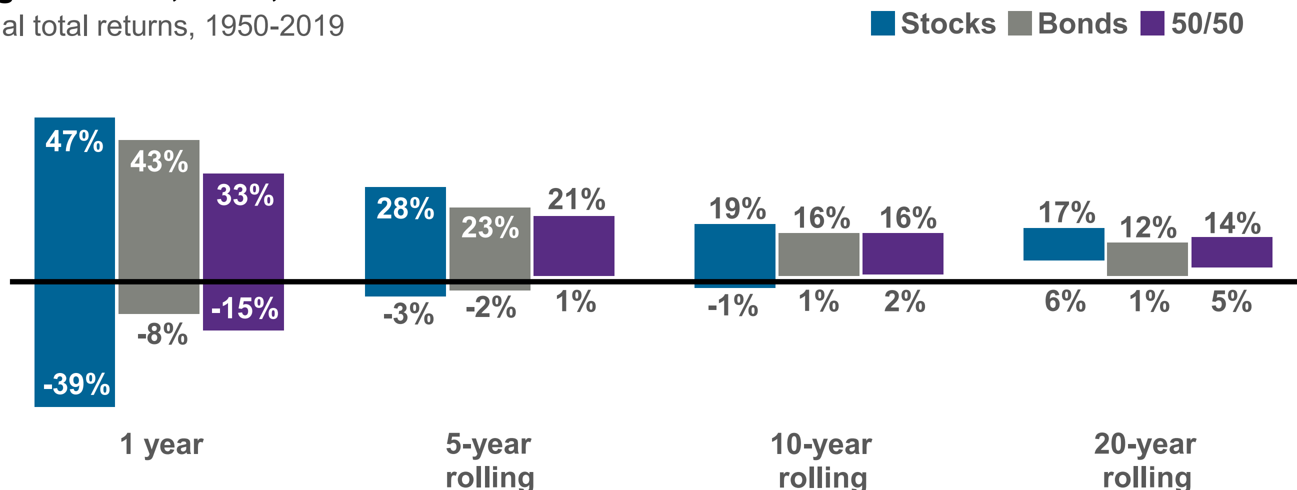
Diversify to Weather the Storms

Allocating across asset classes limits losses in downturns.

You may have heard this investment wisdom before: "Diversification is the only free lunch." Diversifying investments through stocks, bonds, and cash among different sectors and geographical areas of the global economy optimizes "negative correlation." According to Investopedia: *"Correlations are negative when the prices of the two investments move in different directions. Diversifying the portfolio with non-correlated assets can mitigate volatility and risk."*



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The above chart demonstrates the benefit of diversification (e.g. the 50/50 blend) to smooth out performance during downturns and to maintain stable growth within an acceptable tolerance of volatility. Successful investing begins with "knowing thyself" (tolerance of volatility), developing a spending plan (knowing the time frame), and diversifying accordingly (balancing risk/reward).

Investopedia, "How are negative correlations used in risk management?" Updated February 9, 2020.
https://www.investopedia.com/ask/answers/041315/how-are-negative-correlations-used-risk-management.asp

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