

## DIVERSIFICATION REVISITED

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Over the years, I have reviewed hundreds of financial profiles from investors and have noticed some unique interpretations and methods of implementing various investment strategies. One of them revolves around the concept of diversification. This strategy was originally designed to help prevent the simultaneous rise or fall of all investments in an investment portfolio at the same time, and in the same manner, under the same market conditions. Unfortunately, some investors have modified its original design and are now using it in a detrimental manner. Allow me to share a personal story for illustration.

Several years ago, I began working with a new client who, prior to that time, had been working with three different financial professionals who were helping with her planning and investing needs. Unfortunately, due to the different cultures of each firm and the levels of expertise of each advisor, she was receiving conflicting advice. In addition, none of the three knew her entire financial picture, which resulted in overlapping investments and increased risk and expenses in her investment accounts. This “diversification” of financial professionals resulted in great frustration and the destruction, rather than creation, of value.

So what can investors do to use diversification in its originally intended manner to potentially improve their investment results? I recommend the following two actions:

First, consolidate your investment accounts with one firm or one financial professional you trust and who shares a similar philosophy. This can provide the following benefits:

- Simplification of your financials;
- Cohesive recommendations based on your entire financial picture;
- Greater importance to the firm or advisor – multiple smaller accounts at many firms may result in less attention, whereas one larger account at one institution may bring lots of attention and possibly lower fees; and
- In the event of your demise, one party, firm, or individual can help your spouse or heirs with the settlement of your estate.

Second, consider using multiple categories of investments within your investment portfolio (subject to your risk tolerance and investment objectives). These may include\*:

- Stocks (domestic and international)
- Bonds (domestic and international)
- Managed Futures
- Master Limited Partnerships
- Private Equity Investments
- Real Estate (through REITs – Real Estate Investment Trusts)
- Hedge Funds

The benefit that can be realized is different pieces of your investment portfolio working independently of each other. This is especially important for investors who are distributing or consuming their investments. It is important to have choices when taking distributions from a portfolio, given that market conditions will change continuously and some investments will be in favor when others are not.

In summary, I encourage you to review how you are currently using diversification to assess whether improvements can be made to your investment results.

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\* There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Limited partnerships and private equity placements may be subject to investment minimums and may be difficult to liquidate. An investor may or may not be able to redeem these investments in a timely manner. Investing in inverse investments, such as hedge funds, involves certain risks, which may include increased volatility due to the possible use of short sales of securities and derivatives, such as options and futures. Diversification does not ensure a profit or protect against any loss.