President's Corner

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So, You Think You are Diversified???

The words portfolio diversification are, perhaps, two of the most misunderstood and misused words in investment vernacular. In fact, the term "portfolio diversification" refers to the investment theory made famous by Harry Markowitz, the University of Chicago academician who won the Nobel Prize in Economics in 1990. The Markowitz investment strategy stressed the importance of diversifying investors' dollars into many different asset classifications, including tangible assets, all of which are negatively correlated to each other.

Theoretically, such investment portfolios are protected against the major fluctuations in value of any one asset class. By combining investment vehicles within each asset class, the volatility of the investment portfolio as a whole is reduced, while the yield increases. According to Mr. Markowitz, "The function of tangible assets in a diversified investment portfolio is to serve as a defensive asset class…the appreciation of tangible assets can be expected to be proportionate to the depreciation in financial assets during periods of economic, financial, political and military turmoil." Unfortunately, although many money managers purport to be advocates of investment portfolio diversification, the fact is that many investors' portfolios are either woefully underrepresented in tangible assets or not represented at all.

Proper portfolio diversification is not attained simply with diversification among various industries, small cap and large cap or foreign markets etc.

Call us for ideas!

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