12 STEPS TO FINANCIAL INDEPENDENCE

3 DIVERSIFY YOUR PORTFOLIO

"Diversify. In stocks and bonds, as in much else, there is safety in numbers." –John Templeton

We've all heard, and probably used, the phrase "don't put all your eggs in one basket". But what does this really mean? And what is its significance in investing?

What is diversification?

Diversification is the act of combining investments from different asset classes (e.g., equities and fixed income) into a single portfolio in order to minimize the impact or negative returns while ensuring that you have the opportunity to take advantage of whichever asset class is outperforming. The main reason behind this strategy is that no one knows which asset class will outperform in every year, so if all your investments are concentrated in only one asset class, you will feel the impact of market swings more than someone who has spread their money out across more than one investment type.

How to diversify your portfolio:

So, which eggs go into which basket? One of the keys to successful investing is learning how to balance your risk tolerance against your time horizon. This will help you determine your asset allocation. Are you willing to take on a little risk, some risk or a lot of risk, where risk means the possibility of your investments fluctuating? Is your time horizon short (less than one year), medium (2-3 years) or long (3-5 years, or beyond)? Your answers will determine whether, in your diversification, you put more emphasis on equities (which are seen as riskier) or more on fixed income (seen as less risky).

Why you should diversify

Risk reduction: Risk, in investing, is not something you can eliminate altogether, but you can definitely manage it through diversification. For example, if you look at the table provided, you will see that between 2007 and 2017, there was no one asset class that outperformed every year. If you have a mix of equity, balanced, and fixed-income funds, it will allow you to capture positive returns wherever and whenever they occur.

Capital preservation: Some investors, especially those close to retirement, are more focused on preserving their capital and avoiding/minimizing losses. Diversification, with more emphasis on fixed-income investments, will give the portfolio more stability with limited exposure to equities that fluctuate more.

Building and maintaining a well-diversified portfolio is one of the best ways to invest successfully over the long term. Databank offers you a range of mutual funds (ArkFund, BFund, Epack, EdIFund, MFund), as well as access to shares and treasury bills that you can use to diversify your investment portfolio. Invest wisely. Invest with Databank.

	Equities[1]	Money Market[2]	Fixed Income[2]
2007	31.2%	9.91%	12.42%
2008	58.2%	18.20%	16.80%
2009	-46.6%	25.41%	20.74%
2010	32.2%	13.98%	14.65%
2011	-3.1%	10.69%	11.81%
2012	23.8%	18.63%	18.77%
2013	78.8%	21.94%	21.19%
2014	5.4%	23.97%	21.49%
2015	-11.8%	25.11%	22.51%
2016	-15.3%	22.15%	22.96%
2017	52.73%	14.08%	16.59%

[1]Represented by the Ghana Stock Exchange Composite Index. [2]Represented by the average yield for 91-day Treasury bills. [3]Represented by the average yield for 1-year Government of Ghana Note.

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