# A good time to be diversified

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"The only investors who shouldn't diversify are those who are right 100% of the time." - *Sir John Templeton*

Diversification is one of the most important components for reaching your long-term financial goals whilst reducing risk. Diversification is a technique used to reduce risk within a portfolio by allocating capital across various financial instruments and asset classes (Equities, Bonds, Property etc). This is ever more important in the current climate. By spreading your money across these various categories, you are spreading the risk and reducing the potential for sizeable falls in your portfolio. Likewise, you are also reducing the potential reward generated by any one asset class, but this is a necessary trade-off, and a sensible sacrifice in controlling risk for when markets become choppy and volatile.

Some of these categories bring with them more risk and reward than others and dependent upon your risk tolerance and financial goals as an investor, you will be advised to hold more or less of them within your portfolio.

When markets are rising, diversification is sometimes argued to be a drag on performance. When there is nothing but reward in the markets, there is no risk to control so why bother right? WRONG. Staying diversified in a rising market means you might not make a killing but, conversely, you won't get killed!

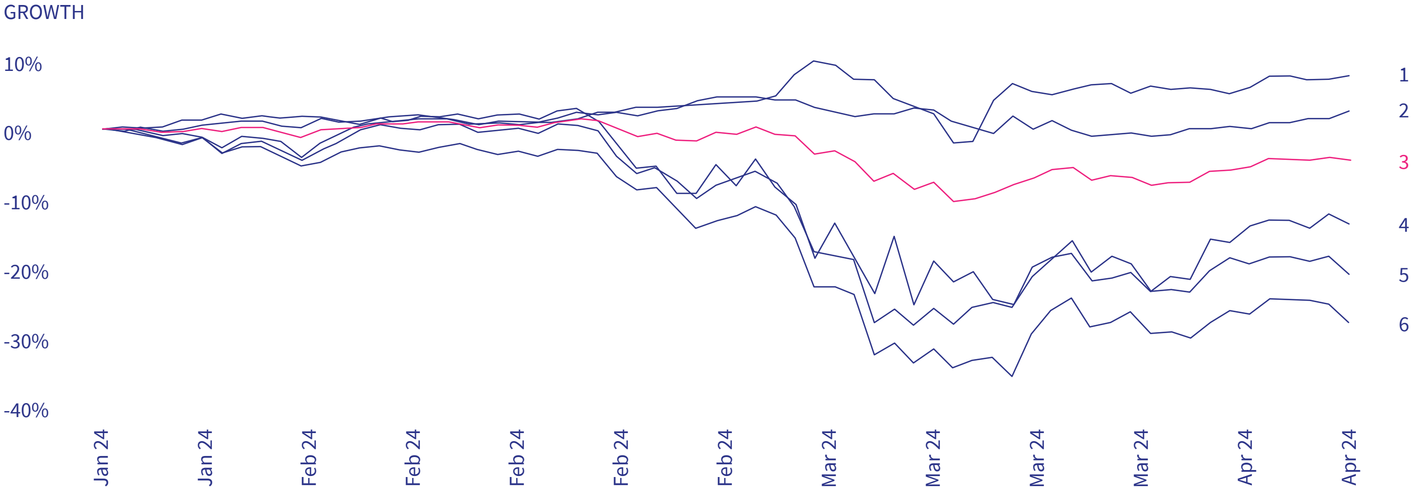
A well diversified portfolio not only represents who you are as an investor but will also stand you in good stead when markets begin to turn. When the day finally comes that markets begin to fall, they can do so very quickly and so it's good practice to have your portfolio set up and ready to deal with it when they do.

**No time like the present**
Markets globally have responded very strongly to the pandemic, falling incredibly fast and with great depth. This really is a terrible time for all but a good time to be diversified. The chart below shows that a well-diversified portfolio can reduce the painful impact of being invested in just one type of asset.

It can be all too easy to forget the importance of diversification, but times like the present make it clear that such actions are crucial in the navigation of a volatile economic period and the protection of your wealth.

**Being well-diversified versus NOT since 17 January 2020**

Source: FE Fundinfo




1. UK Government bonds **(+7.22%)**
2. Global bonds **(+2.38%)**
3. Well-diversed portfolio **(-4.28%)**
4. American equities **(-13.07%)**
5. European equities **(-20.05%)**
6. UK equities **(-26.76%)**