Diversifying Your Investments

A basket is filled with eggs. The bottom of the basket breaks as it is lifted up and all the eggs fall out, passing the word Diversification. **Narrator:** “The old saying ‘Don’t put all your eggs in one basket’ can be applied to the world of investing. It’s a simple way of describing an important risk-management strategy called diversification.”

The falling eggs land in three containers, each a different size, shape, and color. The heights of the containers fluctuate. **Narrator:** “Diversification involves spreading your money among different investments. Because different investments perform differently, those that gain in value can help compensate for those that decline.”

Multiple copies of the egg containers are created, along with new kinds of containers. **Narrator:** “You can diversify your portfolio in two ways. First, by increasing the number of investments you hold. And second, by spreading out your holdings among different types of investments. Let’s look at each.”

The words Number of Investments appear on the left side of the screen with an arrow pointing up. As the narrator speaks, the words move up the screen. On the right side of the screen, the words Exposure to Risk appear with an arrow pointing down. As the narrator speaks, the words move down the screen. **Narrator:** “When you increase the number of investments in your portfolio, you reduce your exposure to the risk that declines in one or several specific investments will drag down your portfolio performance.”

Symbols labeled Utilities and Health Care move up and down. Additional symbols labeled Discretionary, Financials, and Real Estate appear next to them. They also move up and down. **Narrator:** “For instance, stocks in companies in different industries often perform differently at different times of the business cycle. So investing in a wide range of companies and industry sectors -- through mutual funds or investments in individual stocks -- can lower the impact of variations in any individual stock on your overall portfolio.”

The words Types of Investments appear on the left side of the screen with an arrow pointing up. As the narrator speaks, the words move up the screen. On the right side of the screen, the word Risk appears with an arrow pointing down. As the narrator speaks, the word moves down the screen. A line chart forms. Risk is on the vertical axis and potential return is on the horizontal axis. Along the line are pie charts with different percentages of bonds and stocks. The greater the percentage of stocks, the greater the risk and potential return. **Narrator:** “Likewise, when you diversify among different types of investments, you reduce your exposure to one particular asset category. That’s because different types of investments, such as stocks or bonds, have varied levels of risk and return potential. By spreading your money among different types of investments, you may be able to lower your overall portfolio risk.”

The various containers reappear, followed by a small pie chart that moves along a jagged line chart, smoothing out the peaks and valleys. **Narrator:** “Of course, you can’t completely eliminate all investment risk from a portfolio. And diversification cannot guarantee against loss. But it can help smooth out the ups and downs and make you better prepared for ever-changing market conditions.”

The final screen appears, which reads, Diversification does not ensure a profit or eliminate the risk of potential loss, and there is no guarantee that a diversified portfolio will enhance overall returns or outperform a nondiversified portfolio. Your results may differ.