



FAIRBAIRN CAPITAL

The how and why of investment diversification

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Diversification is a familiar term to most investors. In the most general sense, it can be summed up with this phrase: **"Don't put all of your eggs in one basket."**

But, why would you want to diversify your investment portfolio?

Diversification is a technique that reduces risk by allocating investments among various financial instruments, industries and other categories. It aims to maximise return by investing in different areas that would each react differently to the same event. Most investment professionals agree that, although it does not guarantee against loss, diversification is the most important component of reaching long-range financial goals while minimising risk.

Four key ways to achieve diversification of an investment portfolio

<p>Diversification of asset classes</p> <p>The various asset classes come with different levels of risk (volatility of returns) and thus deliver different expected returns over the medium to long-term. But, no one asset class always performs best over an investment period. Asset classes include equities (shares), fixed-interest assets (such as bonds), property, cash, & alternative assets (such as private equity).</p>	<p>Diversification of asset manager styles</p> <p>Different asset managers adopt different "styles" or philosophies when it comes to investing. Some believe in simply tracking a market index (passive management), while some actively aim to outperform particular market indices (active management). Active managers are also broadly split between "growth" and "value" managers.</p>
<p>Diversification through offshore exposure</p> <p>Investing offshore provides exposure to different markets and assets not available in South Africa. This allows investors to benefit from favourable market conditions and opportunities in other countries.</p>	<p>Diversification through multi-management</p> <p>Some asset managers provide asset manager diversification for their clients within a single multi-managed fund. This is achieved through the blending of different complementary asset management styles into a single fund.</p>

Over the next few weeks we unpack each of these four ways that clients can diversify their investment portfolios using the range of solutions available on Fairbairn Capital.