

## **Always completely diversify your portfolio**

**Category : Financial Decision Rules**

**Published by [The Skilled Investor](#) on Feb/24/2007**

### **Always completely diversify your portfolio**

*Summary: Complete diversification is always a better idea. On average, the securities markets will not pay you to hold any skewed subset of the overall market. Doing so is just a gamble that may or may not pay off. You should not expect to be paid any more for the added risk and anxiety. A previous article, "[The Solution - ONLY follow financial strategies that are scientific, passive, diversified, savings focused, risk controlled, low cost, and tax efficient](#)," suggested that individuals are much better off with a well-considered financial viewpoint. A stable set of financial beliefs can help you to keep focused and on track throughout your life. This follow-up article discusses the need to diversify your portfolio fully to eliminate uncompensated investment risks. Portfolio diversification is the only genuinely 'free' financial lunch that is available to individuals. A diversified portfolio is expected to deliver the same expected return with lower expected risk compared to an undiversified or partially diversified portfolio. To diversify completely, hold the full market in your portfolio, instead of a subset of it. Always really does mean always. (See: [Why is diversification valuable to individual investors?](#) and [Is the average individual investor portfolio well diversified?](#)) The value of diversification comes from risk reduction. Diversification reduces overall portfolio risk, but it does not increase expected returns. It produces no free money. It just helps reduce the variability of the expected outcome. Greater certainty, even if still uncertain, is highly beneficial to any risk-averse investor. (See: [Can a limited number of stocks provide complete portfolio diversification?](#)) Index investment funds can provide full diversification at a very low-cost. Holding individual securities will not. Securities markets tend only to compensate overall market risk and a couple of other well established, but relatively minor additional risk factors. Additional enterprise level risks that are inherent in owning individual stocks and bonds are not compensated. Bearing such risks is unnecessary and unproductive. Furthermore, tracking details about individual companies is just a huge waste of your valuable personal time, as you try to pick one company's securities over another's. (See: [Investment securities markets do not pay you for the risks of holding individual common stocks and bonds](#) and [How many mutual funds are needed for a well-diversified portfolio? &ndash; evidence](#)) If you hold any concentrated position in the securities of any individual firm, you should quickly take steps to diversify. If you hold a concentrated position in the same firm that issues your paycheck, you certainly should liquidate and diversify without any further delay. If taxes or other considerations inhibit making immediate changes, consult with an advisor about alternative strategies to use, until you can liquidate your concentrated position in an orderly manner.*

---

SCROLL DOWN FOR LINKS TO OTHER ARTICLES IN THIS CATEGORY